

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

---

In the Matter of: )  
 )  
RATE AND SERVICE CHANGES )  
TO IMPLEMENT BASELINE ) Docket No. MC2005-3  
NEGOTIATED SERVICE AGREEMENT )  
WITH BOOKSPAN )

VOLUME #2

RECEIVED  
2005 OCT 20 P 3:35  
POSTAL RATE COMMISSION

Date: October 19, 2005  
Place: Washington, D.C.  
Pages: 22 through 358

---

## HERITAGE REPORTING CORPORATION

*Official Reporters*  
1220 L Street, N.W., Suite 600  
Washington, D.C. 20005  
(202) 628-4888

## POSTAL RATE COMMISSION

In the Matter of: )  
 )  
RATE AND SERVICE CHANGES )  
TO IMPLEMENT BASELINE ) Docket No. MC2005-3  
NEGOTIATED SERVICE )  
AGREEMENT WITH BOOKSPAN )

Room 200  
Postal Rate Commission  
901 New York Avenue, N.W.  
Washington, D.C.

Volume 2  
Wednesday, October 19, 2005

The above-entitled matter came on for hearing pursuant to notice, at 9:34 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN  
HON. TONY HAMMOND, VICE-CHAIRMAN  
HON. DAWN A. TISDALE, COMMISSIONER

APPEARANCES:

On behalf of the United States Postal Service:

SCOTT L. REITER, Esquire  
United States Postal Service  
Law Department  
475 L'Enfant Plaza, S.W., Room 6506  
Washington, D.C. 20260  
(202) 268-2999

Heritage Reporting Corporation  
(202) 628-4888

## APPEARANCES: (cont'd.)

On behalf of the Office of the Consumer Advocate:

SHELLEY S. DREIFUSS, Esquire  
EMMETT RAND COSTICH, Esquire  
Postal Rate Commission  
Office of Consumer Advocate  
1333 H Street, N.W.  
Washington, D.C.  
(202) 789-6837

On behalf of Val-Pak Direct Marketing Systems and Val-Pak Dealers Association:

WILLIAM J. OLSON, Esquire  
William J. Olson, P.C.  
8180 Greensboro Drive, Suite 1070  
McLean, Virginia 22102-3860  
(703) 356-5070

On behalf of Bookspan:

RITA L. BRICKMAN, Esquire  
Venable, LLP  
575 7th Street, N.W.  
Washington, D.C. 20004  
(202) 344-4800

On behalf of Newspaper Association of America:

WILLIAM B. BAKER, Esquire  
Wiley Rein & Fielding, LLP  
1776 K Street, N.W.  
Washington, D.C. 20006  
(202) 719-7255

On behalf of Discover Financial Services, Inc.:

ROBERT J. BRINKMANN, Esquire  
1101 17th Street, N.W., Suite 605  
Washington, D.C. 20036  
(202) 331-3037

C O N T E N T S

WITNESSES APPEARING:  
 MICHELLE K. YORGEY  
 MICHAEL K. PLUNKETT

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Michelle K. Yorgey					
By Mr. Reiter	49	--	203	--	--
By Ms. Dreifuss	--	134	--	--	--
By Mr. Olson	--	162	--	--	--
By Mr. Baker	--	196	--	--	--
Michael K. Plunkett					
By Mr. Reiter	205	--	--	--	--
By Mr. Olson	--	289	--	--	--
By Mr. Baker	--	322	--	--	--
By Mr. Costich	--	337	--	--	--

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Postal Service's institutional responses to OCA Interrogatories 1 through 12 and 14, OCA/USPS-1	29
Corrected designated written cross-examination of Michelle K. Yorgey, USPS-T-2	55
Chart of mail categories, Val-Pak XE-1	193
Designated written cross-examination of Michael K. Plunkett, USPS-T-1	213

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Postal Service's institutional responses to OCA Interrogatories 1 through 12 and 14, OCA/USPS-1	28	28
Corrected direct testimony of Michelle K. Yorgey on behalf of the United States Postal Service, USPS-T-2	49	50
Corrected designated written cross-examination of Michelle K. Yorgey, USPS-T-2	54	54
Chart of mail categories, Val-Pak XE-1	192	192
Direct testimony of Michael K. Plunkett on behalf of the United States Postal Service, USPS-T-1	206	206
Designated written cross-examination of Michael K. Plunkett, USPS-T-1	212	212

(9:34 a.m.)

CHAIRMAN OMAS: Good morning. I must tell you before we begin I've got a pretty horrendous cold, so stay away from me and bear with me through this.

Good morning. Today we begin the hearing to receive proponent's direct testimony on Docket MC2005-3. Two witnesses are scheduled to appear today, Michelle Yorgey and Michael Plunkett.

I have two procedural matters to discuss. First, no procedure has been established in this case for designation and receipt of institutional responses to discovery requests. Does any participant intend to designate institutional responses provided by the Postal Service?

MS. DREIFUSS: Mr. Chairman, I'm Shelley Dreifuss for the Office of the Consumer Advocate. Yes. We understood that it was the Commission's preference to include institutional responses in either today's transcript or tomorrow's. Probably today's I think.

We came prepared with two copies of the Postal Service's institutional responses to OCA Interrogatories 1 through 12 and 14. I gave them to Postal Service counsel this morning to look over, and

1 I believe he doesn't see any problem with that so I  
2 would ask that those responses be entered into the  
3 record and transcribed today please.

4 CHAIRMAN OMAS: So what you're saying is the  
5 Postal Service has already reviewed the documents?

6 MS. DREIFUSS: Yes. I believe Mr. Reiter  
7 has them in his hand now and has looked them over.

8 MR. REITER: Yes, I've looked them over, Mr.  
9 Chairman.

10 CHAIRMAN OMAS: And there's no problem? I  
11 was going to say you could look at it during the  
12 break, but you've had a chance?

13 MR. REITER: I had a chance to do that.  
14 Thank you.

15 CHAIRMAN OMAS: Okay. That's great.

16 The second issue that requires discussion  
17 concerns discovery responses provided by Bookspan  
18 under protective conditions.

19 It appears that OCA wants to include some of  
20 this material in the evidentiary record. If that is  
21 the case, OCA should allow Bookspan counsel to review  
22 this material and then provide it to the reporter in a  
23 sealed envelope clearly marked Evidence Received Under  
24 Protective Conditions.

25 Ms. Reporter, are you familiar with the

1 procedures for handling evidence received under  
2 protective conditions? Madam Reporter?

3 THE REPORTER: I will discuss this with my  
4 employer.

5 CHAIRMAN OMAS: Okay. Is that satisfactory?

6 THE REPORTER: Yes.

7 MR. REITER: Mr. Chairman, did you want me  
8 to give the two copies of the institutional  
9 responses --

10 CHAIRMAN OMAS: Yes, if you would to the  
11 reporter. Thank you.

12 They will be received into evidence. I'm  
13 sorry. I was moving along.

14 (The document referred to was  
15 marked for identification as  
16 Exhibit No. OCA/USPS-1 and  
17 was received in evidence.)

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //



RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-1.** Please refer to the response to OCA/USPS-T2-6(a)-(c), where it states “Quantifying a specific required multiplier effect would create a binding constraint that would impede future negotiations and might exclude otherwise worthy customers from consideration.”

- a. Please confirm that Section 620.12 of the proposed Domestic Mail Classification Schedule (DMCS) states, “Functionally equivalent NSAs . . . may be entered into with other customers demonstrating a similar or greater multiplier effect . . . (emphasis added). If you do not confirm, please explain.
- b. Please confirm that Section 620.12 of the proposed DMCS creates a “binding constraint . . . that might exclude otherwise worthy customers from consideration.” If you do not confirm, please explain.
- c. Given that Section 620.12 specifies that other customers must demonstrate a similar or greater multiplier effect than Bookspan, please explain how the Postal Service intends to evaluate the functional equivalency to the Bookspan NSA of any proposed NSA “involving declining block rates of Standard Mail letter solicitations for book or analogous club memberships” in the absence of quantifying Bookspan’s multiplier effect.

**RESPONSE:**

- a. Confirmed.
- b. Not confirmed. Please see the response of witness Plunkett to OCA/USPS-T1-7.
- c. Please see the response of witness Plunkett to OCA/USPS-T1-7.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-2.** Please refer to the Request at Attachment A, Section 620.12 of the proposed Domestic Mail Classification Schedule (DMCS). Does the Postal Service have rules, or does it intend to propose rules, to implement proposed Section 620.12 that are analogous to DMM § 709.2.0, Capital One Services, Inc. NSA. Please explain.

**RESPONSE:**

The Postal Service intends to do so.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-3. Please refer to the Request, Attachment E, "Compliance Statement," which references section 195 of the Commission's Rules of Practice and Procedure (39 CFR §3001.195). Section 195(a)(1) states that the Postal Service's request shall include: "(1) A written justification for requesting a Negotiated Service Agreement classification as opposed to a more generally applicable form of classification;"

- a. Please cite the specific sections of the Request, testimony or other written documentation filed in this proceeding that weighs the justification for the Bookspan NSA against "a more generally applicable form of classification."
- b. As requested by Section 195(a)(1), please provide the written justification for requesting the Bookspan NSA classification as opposed to a more generally applicable form of classification.
- c. Please confirm that a discount averaging between 1 and 3 cents for Standard Mail letter-size pieces generally would induce some additional letter-size volume. If you do not confirm, please explain.
- d. Please explain why it is not beneficial to the Postal Service to offer a general discount, averaging between 1 and 3 cents for volumes of Standard Mail letter-size pieces in excess of last year's volumes, rather than for Bookspan specifically?

RESPONSE:

- a. Pages 3-4 of the Postal Service's Request states:

Rule 195(a)(1) requires that the Postal Service provide a "written justification for requesting a Negotiated Service Agreement classification as opposed to a more generally applicable form of classification" ....

As to the question of an NSA versus a generally available classification, the Postal Service believes that an NSA is appropriate in these circumstances. The terms and conditions of the NSA were specifically tailored to reflect the relationship between the Postal Service and Bookspan, which appears to be unique for the reasons set forth in the testimonies of witnesses Posch (Bookspan-T-1), Epp (Bookspan-T-2) and Yorgey (USPS-T-2). Of course, other mailers who can demonstrate that they are similarly situated would be welcome to negotiate a functionally equivalent NSA with the Postal Service. Any such NSA would similarly have to be tailored to the specific mailing profiles of those customers. Thus, a generally available classification would not be a reasonable substitute for the NSA presented in this Request. As to the operational bases and facilities used, this NSA does not envision or require any changes to the current operations and facilities utilized by the Postal Service and Bookspan. Bookspan's mailing practices and postal handling of Bookspan's mail were scrutinized during the course of negotiations and

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

no significant opportunities for additional substantive postal savings were identified.

Also, witness Posch elaborates on the scope and breadth of the direct multiplier effect of continuing mailings of various classes, coupled with the indirect multiplier effect of mailing list expansion. Bookspan-T-1, at 3-6. These characteristics are limited to a very small number of mailers. See Bookspan-T-2, Epp at 2,

In addition, as Plunkett discusses, in response to OCA-T1-4, there is a need for specific contractual provisions designed to ensure that the negotiated incentives are employed solely by the customer, and in the Bookspan case specifically the Postal Service has an unlimited right to terminate the contract if it concludes that the incentives are not working as intended. A classification would not allow the same protections as those afforded by a signed agreement.

b. Please see part a. In addition to those reasons, the small number of companies that could be considered similarly situated make an NSA seem particularly appropriate.

c. In general, any reduction in relative price creates an additional incentive for migration. In practice, the degree to which pieces can be converted from flats to letters will be influenced by other factors. For instance, some mailings may have physical properties that make conversion to letters problematic.

d. During any particular year, many customers' mail volumes would be expected to grow independently of any price incentive to do so. While the presence of an additional incentive might stimulate additional growth, a single, uniform price incentive would inevitably extend the incentives to customers or groups of customers that would increase their mail volume without such incentives. Moreover, absent the contractual

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

arrangements that designate specific permits for inclusion, a classification-wide incentive would create opportunities for the consolidation of preexisting volumes to take advantage of new discount opportunities. As noted above, an NSA can contain provisions, as does this one, to protect the Postal Service from these and other contingencies that could lead to adverse results.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-4. Please refer to the Request at Attachment A, Section 620.12 of the proposed Domestic Mail Classification Schedule (DMCS).

- a. Please explain what is meant by the phrase "multiplier effect" as used in proposed Section 620.12.
- b. From the perspective of the Postal Service, please explain whether the multiplier effect is a measure of
  - i. the additional mailpieces entered by BOOKSPAN other than solicitation mailpieces;
  - ii. the additional mailpieces entered by BOOKSPAN other than solicitation mailpieces, plus the mailpieces entered by BOOKSPAN's customers;
  - iii. the additional contribution to the Postal Service made by BOOKSPAN from mailpieces other than solicitation mailpieces;
  - iv. the additional contribution to the Postal Service made by BOOKSPAN from mailpieces other than solicitation mailpieces, plus the contribution from mailpieces of BOOKSPAN's customers; or
  - v. some other measure.
- c. Please explain how the Postal Service intends to collect data on, or estimate, the multiplier effect listed in subpart b, i., ii., iii., iv. and v. of this interrogatory.
- d. Please explain how the Postal Service intends to collect data on, or estimate, the multiplier effect identified in proposed Section 620.12.
- e. From the perspective of the Postal Service, please explain whether the multiplier effect is to be estimated on an annual basis, or some other time period.

RESPONSE:

- a. Please see witness Plunkett's response to OCA/USPS-T1-7.
- b. The multiplier effect includes the pieces listed. It is not, however, a measure of their contribution, per se. See witness Plunkett's response to OCA/USPS-T1-7.
- c. The Postal Service does not intend to collect such data for the reasons explained by witness Plunkett in response to OCA/USPS-T1-7.
- d.-e. Please see witness Plunkett's response to OCA/USPS-T1-7.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-5.** Please refer to the response to OCA/USPS-2. Please provide a copy of the draft rules (and final rules, when available) to implement proposed Section 620.12.

**RESPONSE:**

These rules have not yet been written. Experience shows that unforeseeable terms can be added to the agreement during litigation.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-6.** Please refer to the response to OCA/USPS-3, referencing the Postal Service's Request at pages 3-4, where it states, "The terms and conditions of the NSA were specifically tailored to reflect the relationship between the Postal Service and Bookspan, which appears to be unique for the reasons set forth in the testimonies of witnesses Posch (Bookspan-T-1), Epp (Bookspan-T-2) and Yorgey (USPS-T-2)."

- a. Please confirm that the apparent uniqueness of the relationship between the Postal Service and Bookspan is the sole reason for an NSA as opposed to a time-limited experimental niche classification. If you do not confirm, please explain.
- b. Please identify by specific line number(s) in the testimonies of witnesses Posch (Bookspan-T-1), Epp (Bookspan-T-2) and Yorgey (USPS-T-2) the statements that confirm the apparent uniqueness of the relationship between the Postal Service and Bookspan.
- c. Please compare and contrast the statements cited in response to subpart b. of this interrogatory with the features and characteristics of other negative option marketers operating pursuant to the Federal Trade Commission's Negative Option Rule. See 16 C.F.R. § 425.1.

**RESPONSE:**

- (a) Not confirmed. Please see the response to OCA/USPS-3, which gives other reasons as well.
- (b) The Postal Service believes that all of Witness Posch's testimony, which identifies how the company operates and makes its marketing decisions, describe this relationship. Witness Epp provides detailed data supporting witness Posch's testimony. Witness Yorgey refers to the multiplier effect, and indicates that Bookspan, unlike its competitors, uniquely relies primarily on the mail for almost all aspects of its business. USPS-T-2, at 7, 8, 9, 13.
- (c) Bookspan's extensive reliance on the mail for almost all aspects of its business and the scope and breadth of its direct and indirect multiplier effects set it apart from other negative option businesses and other mailers in general.



RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-7.** Please refer to the response to OCA/USPS-3, where it states, "Also, witness Posch elaborates on the scope and breadth of the direct multiplier effect of continuing mailings of various classes, coupled with the indirect multiplier effect of mailing list expansion. Bookspan-T-1, at 3-6. These characteristics are limited to a very small number of mailers. See Bookspan-T-2, Epp at 2."

- a. Please confirm that the direct and indirect multiplier effects are also characteristics of other negative option marketers operating pursuant to the Federal Trade Commission's Negative Option Rule. See 16 C.F.R. § 425.1. If you do not confirm, please explain.
- b. Please provide the number of mailers that constitutes a "very small number of mailers." Also, please estimate or provide the number of negative option marketers operating pursuant to the Federal Trade Commission's Negative Option Rule. See 16 C.F.R. § 425.1.

**RESPONSE:**

- (a): Not confirmed. With respect to the direct multiplier effect, negative option marketers may use a range of means for communicating with customers, fulfilling customer orders, billing customers and other communicating with them. With respect to the indirect multiplier effect, such an effect is a result of a company's ability to create and market customer lists that appeal to other marketers and is not related to negative option marketing *per se*.
- (b): The Postal Service is aware of two or three mailers with somewhat similar operations, but combined with the scope and breadth of Bookspan's direct and indirect multiplier effect, Bookspan appears to stand as unique. The Postal Service does not know how many companies or how many mailers are subject the FTC rule cited.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-8.** Please refer to the response to OCA/USPS-3(d).

- a. Please confirm that a time-limited experimental niche classification restricted to negative option marketers, based upon the following features, would induce such marketers to increase their mail volumes:
  - Three years of verified letter volumes from identified permit accounts;
  - A discount threshold somewhat above the average of the three years of verified letter volumes;
  - A discount structure ranging from 1 to 3 cents for incremental letter volume;
  - An adjustment mechanism of the volume threshold where actual volume exceeds a certain percentage in the previous year;
  - An adjustment for mergers and acquisitions, and;
  - An unlimited right to remove any mailer if the Postal Service concludes the incentives are not working as intended.

If you do not confirm, please explain.
- b. Please confirm that a time-limited experimental niche classification restricted to negative option marketers, as described in subpart a. of this interrogatory, would reduce transaction costs. If you do not confirm, please explain.

**RESPONSE:**

- (a) The question cannot be answered as stated. While, in general, it could be assumed that discounts would induce additional volume of a product with some amount of price elasticity, the specific features posited appear to raise numerous issues that would need to be addressed before any conclusions could be reached about the efficacy, let alone the legality and practicality, of such a classification, including the notion of "removal." It should also be noted that, like the hypothetical classification, the NSA is "time limited."
- (b) It is not clear that transaction costs would be reduced, given the degree of individual tailoring and monitoring that would appear to be required to implement and monitor the hypothetical classification.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-9.** Please turn to the FY2002 data furnished in response to OCA/USPS-T2-17. Please also turn to the FY2002 data furnished in response to OCA/BOOKSPAN-T2-1; these data were furnished under seal. The yearly totals in the two responses are approximately equal, but there are substantial discrepancies for the monthly totals.

- (a) Please explain the discrepancies between the yearly totals.
- (b) Please explain the discrepancies between the monthly data from the two sources.

**RESPONSE:**

a.-b. As witness Epp has already explained, Bookspan's fiscal year is not the same time period as the Postal Service's fiscal year and its fiscal month does not coincide with calendar months, which the Postal Service uses. See response to OCA/Bookspan-T2-1. The adjustments to reconcile the data are shown in the columns labeled "Timing."

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-10.** In the case of FY2003 data furnished under seal in response to OCA/BOOKSPAN-T2-1, the data furnished for October and the following September do not match the Postal Service data for October in Attachment 1, page 3 of Question 1, POIR No. 1. Please explain the discrepancy.

**RESPONSE:**

OCA/USPS-10. Please see the response to OCA/USPS-9. During the reconciling process, adjustments were made to account for the discrepancy based on the actual dates within the time periods.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-11.** In the case of FY2004 data furnished under seal in response to OCA/BOOKSPAN-T2-1, the data furnished for October and the following September do not match the Postal Service data for October in Attachment 1, page 3 of Question 1, POIR No. 1. Please explain the discrepancy.

**RESPONSE:**

See the response to OCA/USPS-10.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-12.** In the case of data furnished under seal in response to OCA/BOOKSPAN-T2-1 for FY2002, FY2003, and FY2004 there is a column of negative numbers denoted as "timing" prior to the October entry, and another column of positive numbers, also denoted as "timing" following the September entries.

- (a) Please explain the two columns and how these amounts should be spread among the various months; if your answers to the previous questions have provided this information, please so indicate.
- (b) If the amounts should not be spread among the various months, please explain the significance of the numbers and how they should be treated in an analysis.

**RESPONSE:**

a.-b. These columns represent the adjustments made to reconcile Bookspan's and the Postal Service's fiscal years.

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-14.** Please refer to the response of Bookspan witness Epp to POIR No. 2, Question 1(c) and (e).

- a. Please explain how the Postal Service will independently verify that a Current Member solicitation mailing containing "inserts promoting another Bookspan club" are not treated as a solicitation mailing eligible to be counted and potentially receive discounts under the terms of the NSA.
- b. Please explain the audit and compliance activities to be undertaken by the Postal Service with respect to the Bookspan NSA. Please provide the amount of time, and financial and other resources to be used by the Postal Service to audit and verify compliance with the terms of the Bookspan NSA.
- c. Please confirm that the Postal Service will provide as part of the data collection plan a monthly estimate of the amount of time spent on compliance activity and a description of the activities performed. If you do not confirm, please explain.

**RESPONSE:**

- a. Solicitation mailings eligible for discounts under the terms of this agreement will be mailed under separate, identified permits, as with previous NSAs. The current membership mailings will be prepared and entered under different permit numbers.
- b. Acceptance personnel will determine, in the first instance, that mailings are sent under the appropriate permit number. As Standard Mail, these mailings are subject to postal inspection. The permit system will identify the permit number, point of entry, mail type, revenue, volume and weight for each mailing. This data will be reconciled with Bookspan on a monthly basis, as with other NSAs. The amount of time and resources to verify compliance will vary month to month.
- c. Please see USPS-T-2 Appendix E.

1           CHAIRMAN OMAS: Does any counsel want to  
2     conduct oral cross-examination concerning material  
3     subject to protective conditions?

4           MS. DREIFUSS: Mr. Chairman, OCA does want  
5     to; at least we think it may be something that  
6     Bookspan would like to keep confidential. I'm not  
7     certain whether they will insist on confidentiality or  
8     not.

9           One of the things we were going to cross-  
10    examine witnesses about were some recently collected  
11    actual volume figures, actual monthly volume figures  
12    for Bookspan solicitation mailings for the months of  
13    August and September. In an answer filed under seal,  
14    Mr. Epp had provided monthly projections for August  
15    and September and now has the actual volume figures.

16           OCA's questions really concern the now  
17    annual numbers for 2005 that were disclosed publicly  
18    yesterday by the Postal Service, so it may be that at  
19    least for purposes of those questions that Bookspan  
20    would not feel it necessary to maintain  
21    confidentiality of all cross-examination.

22           I think there may be some other areas. In  
23    some cases information has been publicly disclosed and  
24    may be supplemented or supplemented with other  
25    information under seal, so I think it's at least



1 possible that there will be oral cross-examination  
2 tomorrow that Bookspan would prefer not to be made  
3 public, but I don't know for sure. In some sense it's  
4 their call.

5 CHAIRMAN OMAS: Okay. Is there a response  
6 to that? Introduce yourself for the record, please.

7 MS. BRICKMAN: Mr. Chairman, this is Rita  
8 Brickman representing Bookspan.

9 CHAIRMAN OMAS: Could you speak up, please?

10 MS. BRICKMAN: Yes, sir. The monthly  
11 information Bookspan would like to maintain  
12 confidentiality about.

13 If the Consumer Advocate is able to frame  
14 questions concerning annual information Bookspan is  
15 prepared to make annual information public, but  
16 Bookspan views the monthly information as  
17 competitively sensitive.

18 MS. DREIFUSS: Mr. Chairman, what I will try  
19 to do is I will try to go over some of the material  
20 with Ms. Brickman tomorrow morning before oral cross-  
21 examination of Witness Epp to see if there are any  
22 areas that they prefer to be confidential.

23 If that's the case then maybe we could try  
24 to separate questions that are all right to ask  
25 publicly from those that have to be asked

1 confidentially. It may be if we're fortunate maybe  
2 that there really isn't anything that they're  
3 uncomfortable in making public.

4 CHAIRMAN OMAS: Ms. Brickman?

5 MS. BRICKMAN: I'm certainly happy to  
6 discuss that with the Consumer Advocate.

7 CHAIRMAN OMAS: Great.

8 MS. DREIFUSS: Thank you.

9 CHAIRMAN OMAS: Thank you.

10 Continuing, in R2000-1 the Commission held a  
11 brief hearing on information subject to protective  
12 conditions. If necessary, we will use the same  
13 procedures in this case.

14 After Bookspan witnesses have concluded  
15 their testimony on other issues, the hearing will be  
16 recessed and then the hearing room cleared. Those  
17 wishing to attend the hearing on information subject  
18 to protective conditions will have to sign a statement  
19 similar to the ones required before access to  
20 protected documents is allowed. The statement will  
21 commit the signor to keep information heard during the  
22 hearing in confidence.

23 There will be no website streaming of this  
24 additional hearing, and the transcript will be  
25 maintained under seal at the Commission subject to the

1 same protective conditions applied to certain Bookspan  
2 discovery responses.

3 Are there any questions or concerns about  
4 this procedure?

5 MS. DREIFUSS: Mr. Chairman?

6 CHAIRMAN OMAS: Ms. Dreifuss?

7 MS. DREIFUSS: It's Shelley Dreifuss again.

8 I actually wanted to raise one more matter. It's in  
9 this family of issues concerning confidentiality.

10 I did want to make the Commission aware that  
11 testimony that has been prepared by OCA at this time  
12 and that we will file on Monday I believe we're going  
13 to have to file at first under seal because we're  
14 doing our own volume projections using some of that  
15 monthly data that Bookspan has provided under seal.

16 It's our hope though that in working with  
17 counsel for Bookspan that most of OCA's testimony can  
18 be released publicly very soon after we submit it  
19 under seal, so I'm just suggesting that if it's all  
20 right with you, Mr. Chairman, we will try to work that  
21 out with Bookspan's counsel so that most of it could  
22 be released in a short period of time.

23 MS. BRICKMAN: We've provided that portion  
24 of the testimony that does not include monthly  
25 figures. Of course that would be public information.

1 We've made every effort to confine the information  
2 that Bookspan considers sensitive to specific  
3 exhibits.

4 MS. DREIFUSS: Right. I know some of what  
5 we will do will be to reach conclusions based on the  
6 projections that we do. I think the safest course  
7 would be for us to show you. We'll file the testimony  
8 on Monday. It will be filed under seal.

9 Have Bookspan look it over and just inform  
10 us what portions, if any, should remain under seal and  
11 what portions could be released. I hesitate --

12 MS. BRICKMAN: If it's possible, perhaps  
13 after we have an opportunity to review it. I'm not  
14 sure what kind of discussion is going to occur in your  
15 portion of the testimony, the discussion portion, but  
16 there may be a need for redacted copies to be filed.

17 MS. DREIFUSS: Right. That sounds  
18 reasonable to me also.

19 CHAIRMAN OMAS: Well, we do appreciate and  
20 we would appreciate counsel working together and to  
21 work out this matter.

22 Continuing, does anyone have any procedural  
23 matters to discuss before we begin?

24 (No response.)

25 CHAIRMAN OMAS: Mr. Reiter, there being none

1 would you identify your first witness please so that I  
2 can swear them in?

3 MR. REITER: Yes, Mr. Chairman. Our first  
4 witness is Michelle Yorgey.

5 CHAIRMAN OMAS: Will you raise your right  
6 hand?

7 Whereupon,

8 MICHELLE K. YORGEY

9 having been duly sworn, was called as a  
10 witness and was examined and testified as follows:

11 CHAIRMAN OMAS: You may be seated.

12 MR. REITER: Mr. Chairman, I will present to  
13 the witness two copies of a document entitled Direct  
14 Testimony of Michelle K. Yorgey on Behalf of the  
15 United States Postal Service designated USPS-T-2.

16 (The document referred to was  
17 marked for identification as  
18 Exhibit No. USPS-T-2.)

19 MR. REITER: I wanted to point out that  
20 these copies contain the revision of Appendix E to the  
21 testimony that we filed yesterday.

22 DIRECT EXAMINATION

23 BY MR. REITER:

24 Q Ms. Yorgey, was that testimony prepared by  
25 you or under your direction?

1           A     Yes, it was.

2           Q     And if you were to testify orally here today  
3 would your testimony be the same as is written there?

4           A     Yes, it would.

5           MR. REITER: Mr. Chairman, with that I ask  
6 that Ms. Yorgey's testimony be entered into the  
7 record.

8           CHAIRMAN OMAS: Is there objection?

9           (No response.)

10          CHAIRMAN OMAS: Hearing none, I will direct  
11 counsel to provide the reporter with two copies of the  
12 corrected direct testimony of Michelle Yorgey.

13          That testimony is received into evidence.  
14 However, as is our practice, it will not be  
15 transcribed.

16                               (The document referred to,  
17                               previously identified as  
18                               Exhibit No. USPS-T-2, was  
19                               received in evidence.)

20          CHAIRMAN OMAS: Ms. Yorgey, have you had an  
21 opportunity to examine the packet of designated  
22 written cross-examination that was made available to  
23 you in the hearing room this morning?

24          THE WITNESS: Yes, I have.

25          CHAIRMAN OMAS: If the questions contained

1 in that packet were posed to you orally today, would  
2 your answers be the same as those previously provided  
3 in writing?

4 THE WITNESS: Yes, they would.

5 CHAIRMAN OMAS: Are there any corrections or  
6 additions you would like to make at this time to those  
7 answers?

8 MR. REITER: Mr. Chairman, I'll point out  
9 that we also substituted the attachment to Presiding  
10 Officer's Information Request No. 1, Question 1(a)(i)  
11 and (ii), that was filed yesterday.

12 We also included the attachments to Question  
13 Val-Pak/USPS-T-2-1, which were not reproduced with the  
14 rest of the questions.

15 MS. DREIFUSS: Mr. Chairman?

16 CHAIRMAN OMAS: Yes?

17 MS. DREIFUSS: OCA would ask that both the  
18 originally filed response to the POIR, as well as the  
19 update to the response, be included in the record.

20 The reason I think it's appropriate to  
21 include both is that one of the issues that OCA wants  
22 to address in this proceeding is the accuracy and  
23 reliability of independent forecasts of Bookspan's  
24 volume, and we may want to show the difference between  
25 what the Postal Service had projected before fiscal

1 year 2005 was over and what the actual volumes were.

2 MR. REITER: Well, that is shown in the  
3 revision as well.

4 MS. DREIFUSS: Could you show it to me, Mr.  
5 Reiter?

6 MR. REITER: Sure.

7 MS. DREIFUSS: What you would be showing me  
8 then would be the original Postal Service forecast  
9 without having the actual volumes of fiscal year 2005,  
10 and that would be part of the answer that is in the  
11 revision?

12 MR. REITER: This particular answer didn't  
13 have 2005 in it before. That's what we added.

14 MS. DREIFUSS: Do the projections for Years  
15 1, 2 and 3 change because of actual volumes from  
16 fiscal year 2005?

17 MR. REITER: No. We didn't change those.

18 Is that right? I should ask the witness  
19 that. My recollection is that all we did was add the  
20 2005 numbers.

21 MS. DREIFUSS: I thought that the forecasts  
22 had changed.

23 THE WITNESS: The numbers did roll forward.  
24 She's correct. The numbers would roll forward because  
25 of the input of those 2005 added.



1           MR. REITER: Once they were added to the  
2 spreadsheet?

3           THE WITNESS: Right. The spreadsheet.

4           MS. DREIFUSS: Right. So in other words, it  
5 would appear that the estimates that the Postal  
6 Service is currently submitting in response to that  
7 POIR are different than the estimates for Years 1, 2  
8 and 3 that were originally submitted to the presiding  
9 officer based on the actual fiscal year 2005 volumes.

10           I think it would be important for the record  
11 to be able to show how tricky it is to do these  
12 projections based on what the Postal Service did at  
13 first and what it is currently thinking are the  
14 correct estimates based on actual volumes.

15           MR. REITER: Well, the actual electronic  
16 spreadsheet was provided as well, which allows anyone  
17 to do that.

18           MS. DREIFUSS: Right, but previously we've  
19 seen those volumes. They were submitted in response  
20 to the presiding officer's information request. The  
21 presiding officer in fact designated a previous answer  
22 to be included in the record, and you have made a  
23 substitution.

24           I'm not objecting to the substitution. What  
25 I am objecting to is the removal from the record of

1     what the presiding officer intended in the first  
2     place. The presiding officer, to my knowledge, never  
3     designated any revisions that took place yesterday.  
4     Instead, the presiding officer designated the  
5     originally submitted estimate so I am asking that both  
6     sets be included in the record.

7             MR. REITER: We can do that. We'll just  
8     need to mark them in some way. Well, that one says  
9     Revised and this one doesn't.

10            MS. DREIFUSS: Okay.

11            MR. REITER: We can put these two sheets in  
12     that correspond to those.

13            MS. DREIFUSS: Okay. That would be fine.

14            CHAIRMAN OMAS: Thank you, Mr. Reiter.  
15     Counsel, would you please provide two copies of the  
16     corrected designated written cross-examination of  
17     Witness Yorgey to the reporter?

18            That material is received into evidence and  
19     is to be transcribed into the record.

20                           (The document referred to was  
21                           marked for identification as  
22                           Exhibit No. USPS-T-2 and was  
23                           received in evidence.)

24     //

25     //

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001


Rate and Service Changes to Implement  
Baseline Negotiated Service Agreement  
with Bookspan

Docket No. MC2005-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS MICHELLE K. YORGEY  
(USPS-T-2)

<u>Party</u>	<u>Interrogatories</u>
American Postal Workers Union, AFL-CIO	APWU/USPS-T2-1-3  OCA/USPS-T2-10, 16
Newspaper Association of America	OCA/USPS-T2-17
Office of the Consumer Advocate	OCA/USPS-T2-1-5, 7-11, 12a, 13, 15-19
Postal Rate Commission	PRC/USPS-POIR No.1 - Q1a, 1b, 2-3, 4b, 5, POIR No.2 - Q2, 4 redirected to T2
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.	VP/USPS-T2-1-9

Respectfully submitted,

  
Steven W. Williams  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS MICHELLE K. YORGEY (T-2)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
APWU/USPS-T2-1	APWU
APWU/USPS-T2-2	APWU
APWU/USPS-T2-3	APWU
OCA/USPS-T2-1	OCA
OCA/USPS-T2-2	OCA
OCA/USPS-T2-3	OCA
OCA/USPS-T2-4	OCA
OCA/USPS-T2-5	OCA
OCA/USPS-T2-7	OCA
OCA/USPS-T2-8	OCA
OCA/USPS-T2-9	OCA
OCA/USPS-T2-10	APWU, OCA
OCA/USPS-T2-11	OCA
OCA/USPS-T2-12a	OCA
OCA/USPS-T2-13	OCA
OCA/USPS-T2-15	OCA
OCA/USPS-T2-16	APWU, OCA
OCA/USPS-T2-17	NAA, OCA
OCA/USPS-T2-18	OCA
OCA/USPS-T2-19	OCA
PRC/USPS-POIR No.1 - Q1a redirected to T2	PRC
PRC/USPS-POIR No.1 - Q1b redirected to T2	PRC
PRC/USPS-POIR No.1 - Q2 redirected to T2	PRC
PRC/USPS-POIR No.1 - Q3 redirected to T2	PRC
PRC/USPS-POIR No.1 - Q4b redirected to T2	PRC
PRC/USPS-POIR No.1 - Q5 redirected to T2	PRC
PRC/USPS-POIR No.2 - Q2 redirected to T2	PRC
PRC/USPS-POIR No.2 - Q4 redirected to T2	PRC
VP/USPS-T2-1	Valpak
VP/USPS-T2-2	Valpak
VP/USPS-T2-3	Valpak
VP/USPS-T2-4	Valpak

Interrogatory

VP/USPS-T2-5

VP/USPS-T2-6

VP/USPS-T2-7

VP/USPS-T2-8

VP/USPS-T2-9

Designating Parties

Valpak

Valpak

Valpak

Valpak

Valpak

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORIES OF THE AMERICAN POSTAL WORKERS UNION

APWU/USPS-T2-1. In his testimony on June 29, 2005 for the R2005-1 rate case, Mr. Abdirahman indicated that there had been a problem with appropriately allocating costs between the nonautomated and automated presort categories of both First Class and Standard letter mail. This resulted in too many costs being allocated to the nonpresort category and too few costs being allocated to the automated category [R2005-1 Tr. 4 1139-1147].

- a. Please identify all adjustments you performed to Mr. Abdirahman's mail processing cost data to correct for this problem and show your calculations.
- b. If you did not correct for this problem, please explain why it is appropriate to use these cost numbers in calculating the estimated financial impact this NSA might produce for the Postal Service.

RESPONSE:

- a. No adjustments were made to Mr. Abdirahman's mail processing cost data.
- b. In constructing my analysis, I used the most recent data that were available at that time.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORIES OF THE AMERICAN POSTAL WORKERS UNION

APWU /USPS-T2-2. If you had applied the correction to Mr. Abdirahman's data that was suggested on page 4 of his response to R2005-1 POIR 1 part a:

- a. What would be the impact on the cost estimates for each rate category shown on page 4 of Appendix A of your testimony?
- b. What would be the impact on the overall reweighted cost estimate for Bookspan's letter-shaped mail?

Please show any calculations used to respond to this question.

RESPONSE:

- a. – b. Please see my response to APWU/USPS-T1-1a.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORIES OF THE AMERICAN POSTAL WORKERS UNION

APWU/USPS-T2-3. Based on Appendix A, page 9 of your testimony, almost 70 percent of the positive financial benefit you calculate for the Postal Service comes from the conversion of flat-shaped mail to letter-shaped mail.

- a. In making the calculation of the increase in contribution coming from such a conversion, what assumptions did you make about the characteristics of the letter-shaped piece of mail that would replace the flat-shaped piece of mail? Will this letter-shaped piece of mail would be machinable?
- b. Please confirm that the mail processing cost numbers estimated for flat-shaped standard mail in the R2005-1 rate case are between 12.9 and 28.2 percent above cost estimates for flat-shaped standard mail in the R2001-1 rate case depending on the type of flat considered. (USPS version of costs).
- c. Did you investigate why there was such a large increase in those costs during this period of time considering: 1) automation of flats processing had increased significantly; 2) the mail processing costs of First Class flats were falling at double-digit rates; and 3) Mr. McCrery, the operations expert, reports that there are no capacity constraints that would result in more manual sorting of Standard flats [R2005-1 Tr.#5, p. 1745]?
- d. Did you perform any sensitivity analysis to determine the impact on the USPS financial benefits from this case if the Standard mail flats cost are different from those estimated in R2005-1? If so, please describe that analysis and report any results.

RESPONSE:

- a. The calculations are based on the assumption that the characteristics of the letter-size mail pieces in FY2004 would be similar to those new letter-size mail pieces replacing flat-shape mail pieces. The characteristics of these new letter-size mail pieces are assumed to be of the same as stated in the financial model, Appendix A, page 3, which are machinable mail pieces.
- b. I am unable to confirm as I did not use Docket No. R2001-1 data to calculate the financial impact of this NSA.
- c. No, please see my response to APWU/USPS-T2-3b.
- d. No, because there is no reason to believe that Bookspan's costs differ from the average costs presented in Docket No. R2005-1.



**OCA/USPS-T2-1.** Please refer to your testimony at pages 2 and 3, line 20, and lines 1-2, respectively, where it states "Discounts would be *earned* for volumes above 87 million pieces (the threshold), but the discounts would *not* be paid unless Bookspan actually mails 94 million pieces (the volume commitment)." (emphasis original). In the first year of the NSA, assuming Bookspan mails more than 87 million but less than 94 million pieces, under what circumstances (if any) could Bookspan be paid for the discounts earned on an annual volume between 87 million and 94 million pieces?

**RESPONSE:**

Given the hypothetical described in this interrogatory, there would be no payment to Bookspan under any circumstances.

**OCA/USPS-T2-2.** Please refer to your testimony at page 12, lines 11-14, where it states, "The second feature . . . requires that volumes exceed incentive volume thresholds before discounts are payable." Also, please refer to page 4, Table 1, the "Year 1 Structure" Volume Commitment of 94 million.

- a. Please confirm that the volume commitment of 94 million pieces, once achieved by Bookspan, causes the payment of discounts earned for volumes between 87 million and 94 million? If you do not confirm, please explain.
- b. Please explain how the volume commitment of 94 million pieces reduces the financial risk to the Postal Service.
- c. Please confirm that an "incentive volume threshold" of 94 million would be more advantageous to the Postal Service in terms of reducing financial risk on the downside than the 87 million incentive volume threshold. If you do not confirm, please explain.

**RESPONSE:**

- a. Confirmed.
- b. As explained in my testimony, page 12, the volume commitment threshold provides additional protection from deviation in forecasting before-rates volumes and also reduces the risk of discount leakage by requiring that volumes exceed incentive volume thresholds before discounts are payable.
- c. A conclusive answer is not possible without knowing what additional considerations Bookspan would have required to agree to higher threshold levels. Moreover, 94 million is substantially higher than Bookspan's before rates volume, such that it would be less effective as an incentive if it is perceived to be unreachable.

**OCA/USPS-T2-3.** Please refer to Attachment A of your testimony, page 4, columns (1) and (9), the "TYBR 2006 Total Unit Cost (Dollars)." Please show the derivation of the figures used in columns (1) and (9), and citations to all sources.

**RESPONSE:**

Please see Attachment 2 to the Postal Service's Response to Presiding Officer's Information Request No. 1 (question 2).

**OCA/USPS-T2-4.** Please refer to Attachment A of your testimony, page 6, columns (1) and (9), the "TYBR 2006 Total Unit Cost (Dollars)." Please show the derivation of the figures used in columns (1) and (9), and citations to all sources.

**RESPONSE:**

Please see Attachment 2 to the Postal Service's Response to Presiding Officer's Information Request No. 1 (question 2).

**OCA/USPS-T2-5.** Please refer to the Request at Attachment F, Section I.A., where it states "Such letters may include promotions of Bookspan's strategic business alliances."

- a. Please explain what is meant by "Bookspan's strategic business alliances."
- b. Will the number of "Bookspan's strategic business alliances" be fixed in number for the duration of the NSA? Please explain.
- c. What is to prevent Bookspan from becoming a "presort bureau" for those who belong to "Bookspan's strategic business alliances?" Please explain.
- d. How does the Postal Service intend to monitor this section of the NSA? Please explain.

**RESPONSE:**

- a. It is the Postal Service's understanding that Bookspan's solicitation mailings currently may include material promoting its business partners. The statement you quote from the NSA is intended to make it clear that the NSA does not require a change in Bookspan's practices in that regard.
- b. The NSA does not address that issue.
- c.-d. As a matter of course, the Postal Service monitors all NSA customer volumes on a monthly basis. Any unusual deviation from normal mailing patterns would trigger an inquiry into the source of the increase. If Bookspan were found to be acting as a presorter, which is contrary to the purpose of the NSA, the Postal Service would consider the appropriate course of action, which could include exercising its unconditional right to terminate the agreement with 30 days' notice.

OCA/USPS-T2-7. Please refer to your testimony at Appendix A, page 2, the After Rates (AR) "New Membership Std Flat-size" volumes. Also, please refer to the Request at Attachment A and Attachment F. Is there a requirement in the proposed DMCS or NSA that Bookspan enter no more than the AR Standard Mail flat-size volumes of 120 million, 110 million and 110 million for Fiscal Years 2006, 2007, and 2008, respectively? Please explain.

RESPONSE:

7. No. The NSA provides no incentive for Bookspan to reverse the trend of declining flats volumes.

OCA/USPS-T2-8. Please refer to your testimony at page 5, the "Annual Adjustment Mechanism for Volume Commitments," lines 6-14. Also, please refer to Tables 1 and 2, below.

- a. Refer to Table 1, below. Under the Bookspan NSA, please confirm that where the Year 1 actual volume increases by the percents shown in column [3], the Year 2 Adjusted Volume Commitment (AVC) will increase by the percents shown in column [6]. If you do not confirm, please explain. (Note: Table 1, Line 7 displays the example at USPS-T-2, page 5.)

TABLE 1  
Bookspan NSA: Year 1  
Percent Increase in Actual Volume Above Year 1  
Negotiated Volume Commitment (NVC) and Resulting  
Year 2 Adjusted Volume Commitment (AVC)  
(Figures in thousands, except percents)

Line No.	Year 1: NVC [1]	Year 1: Actual Volume [2]	Increase in Year 1 Actual Volume [3]	Year 2: NVC [4]	Year 2: AVC [5]	Percent Increase in Year 2 AVC [6]
1	94,000	105,280	12.00%	95,000	100,140	5.4%
2	94,000	106,220	13.00%	95,000	100,610	5.9%
3	94,000	107,160	14.00%	95,000	101,080	6.4%
4	94,000	108,100	15.00%	95,000	101,550	6.9%
5	94,000	109,040	16.00%	95,000	102,020	7.4%
6	94,000	109,980	17.00%	95,000	102,490	7.9%
7	94,000	110,000	17.02%	95,000	102,500	7.9%
8	94,000	110,920	18.00%	95,000	102,960	8.4%
9	94,000	111,860	19.00%	95,000	103,430	8.9%
10	94,000	112,800	20.00%	95,000	103,900	9.4%

Columns:

- [1] Request, Attachment F, Section II.A.1.  
[2] [1] \* (1 + [3])  
[3] Request, Attachment F, Section II.A.2.a.  
[4] Request, Attachment F, Section II.A.2.  
[5] ([2] + [4]) / 2  
[6] [5] / [4] - 1

- b. Refer to Table 2, below. Under the Bookspan NSA, please confirm that where the Year 2 actual volume increases by the percents shown in column [3], the Year 3 AVC will increase by the percents shown in column [6]. If you do not confirm, please explain.

TABLE 2  
Bookspan NSA: Year 2  
Percent Increase in Actual Volume Above Year 2  
Negotiated Volume Commitment (NVC) and Resulting  
Year 3 Adjusted Volume Commitment (AVC)  
(Figures in thousands, except percents)

Line No.	Year 2: NVC [1]	Year 2: Actual Volume [2]	Increase in Year 2 Actual Volume [3]	Year 3: NVC [4]	Year 3: AVC [5]	Percent Increase in Year 3 AVC [6]
1	95,000	106,400	12.00%	105,000	105,700	0.7%
2	95,000	107,350	13.00%	105,000	106,175	1.1%
3	95,000	108,300	14.00%	105,000	106,650	1.6%
4	95,000	109,250	15.00%	105,000	107,125	2.0%
5	95,000	110,200	16.00%	105,000	107,600	2.5%
6	95,000	111,150	17.00%	105,000	108,075	2.9%
7	95,000	112,100	18.00%	105,000	108,550	3.4%
8	95,000	113,050	19.00%	105,000	109,025	3.8%
9	95,000	114,000	20.00%	105,000	109,500	4.3%

Columns:

- [1] Request, Attachment F, Section II.A.2.
- [2] [1] \* (1 + [3])
- [3] Request, Attachment F, Section II.A.3.a.
- [4] Request, Attachment F, Section II.A.3.
- [5] ([2] + [4]) / 2
- [6] [5] / [4] - 1

RESPONSE:

a.-b. Confirmed.



OCA/USPS-T2-9. Please refer to your testimony at page 5, the "Annual Adjustment Mechanism for Volume Commitments," lines 15-20.

- a. If Bookspan's actual mail volume is 5 percent below the Year 1 negotiated volume commitment, or 89.3 million ( $94 \text{ million} * (1.00 - 0.05)$ ), please confirm that the Year 2 adjusted volume commitment will be 90.25 million ( $95 \text{ million} - (95 \text{ million} * 0.05)$ ). If you do not confirm, please explain.
- b. If the Year 2 adjusted volume commitment is 90.25 million, and Bookspan mails 90.25 million pieces, please confirm that Bookspan would be paid discounts of \$105,000 ( $(90.25 \text{ million} - 85 \text{ million}) * 0.02$ ). If you do not confirm, please explain.
- c. If Bookspan's actual mail volume is 5.26 percent (0.052631578947) below the Year 1 negotiated volume commitment, or 89.053 million ( $94 \text{ million} * (1.00 - 0.0526)$ ), please confirm that the Year 2 adjusted volume commitment will be 90 million ( $95 \text{ million} - (95 \text{ million} * 0.0526)$ ). If you do not confirm, please explain.
- d. If the Year 2 adjusted volume commitment is 90 million, and Bookspan mails 90 million pieces, please confirm that Bookspan would be paid discounts of \$100,000 ( $(90 \text{ million} - 85 \text{ million}) * 0.02$ ). If you do not confirm, please explain.
- e. If Bookspan's actual mail volume is 5 percent below the Year 2 negotiated volume commitment, or 90.25 million ( $95 \text{ million} * (1.00 - 0.05)$ ), please confirm that the Year 3 adjusted volume commitment will be 99.75 million ( $105 \text{ million} - (105 \text{ million} * 0.05)$ ). If you do not confirm, please explain.
- f. If the Year 3 adjusted volume commitment is 99.75 million, and Bookspan mails 99.75 million pieces, please confirm that Bookspan would be paid discounts of \$57,500 ( $(99.75 \text{ million} - 94 \text{ million}) * 0.01$ ). If you do not confirm, please explain.
- g. If Bookspan's actual mail volume is 10.48 percent (0.104761904762) below the Year 1 negotiated volume commitment, or 85.048 million ( $95 \text{ million} * (1.00 - 0.1048)$ ), please confirm that the Year 3 adjusted volume commitment will be 94 million ( $105 \text{ million} - (105 \text{ million} * 0.1048)$ ). If you do not confirm, please explain.
- h. If the Year 3 adjusted volume commitment is 94 million, and Bookspan mails 94 million pieces, please confirm that Bookspan would be paid discounts of \$0 ( $(94 \text{ million} - 94 \text{ million}) * 0.01$ ). If you do not confirm, please explain.

RESPONSE:

- a. Confirmed
- b. Not confirmed. The refund is \$104,999.98. The calculation is based on the difference between 85,000,001 and 90,250,000 (5,249,999) times \$0.02.

- c. Confirmed.
- d. Not confirmed. The refund is \$99,999.98. The calculation is based on the difference between 85,000,001 and 90,000,000 (4,999,999) times \$0.02.
- e. Confirmed.
- f. Not confirmed. The refund is \$57,499.99. The calculation is based on the difference between 94,000,001 and 99,750,000 (5,749,999) times \$0.01.
- g. The calculations cannot be confirmed without knowing the Year 2 actual volumes.
- h. Confirmed.

OCA/USPS-T2-10. Please refer to your testimony at Appendix D.

- a. Please confirm that the contribution to the Postal Service would increase if 100 percent of Bookspan's After Rates Standard Mail solicitation letter volume consisted of new letters. If you do not confirm, please explain.
- b. Please explain why it is in the financial interest of the Postal Service to induce the conversion of Standard Mail flats to letters when the largest contribution to the Postal Service occurs where 100 percent of Bookspan's After Rates Standard Mail solicitation letter volume consists of new letters.

RESPONSE:

- a. Confirmed.
- b. The Bookspan NSA is designed to provide incentives that will increase solicitation volume. The Postal Service recognizes that Bookspan has been converting flats to letters for some time and has incentives to continue to do so independent of the NSA. My analysis recognizes this and attempts to quantify the value of the NSA assuming that trend continues. As I have demonstrated, the net contribution increases when flats are converted to letters, even given the incentives in the NSA.

OCA/USPS-T2-11. Please refer to your testimony at page ii. You state that: "In 1996, I was selected as the Program Manager for International Customized Mail agreements in the newly formed International Business Unit. I was responsible for negotiation, development and implementation of ICM agreements."

- a. Please describe your duties in negotiating and implementing ICM agreements.
- b. Please give the time period during which you negotiated and implemented ICM agreements.
- c. Please state the number of ICM agreements, by year, that the Postal Service entered into during the period of time given in answer to part b. of this interrogatory. Please break down this number into:
  - i. number, or percentage, of total ICM agreements (by year) that broke even, i.e., revenues equaled costs.
  - ii. number, or percentage, of total ICM agreements (by year) that produced a surplus, i.e., revenues exceeded costs.
  - iii. number, or percentage, of total ICM agreements (by year) that lost money, i.e., costs exceeded revenues.
- d. Please list all measures used by the Postal Service to ensure revenue surpluses for ICM agreements.
  - i. How successful were these measures?
  - ii. If the measures were not entirely successful, what changes to these measures are being taken with respect to ICM agreements.
- e. Please describe in detail all methods and techniques that were used under your direction to estimate the volumes that would be entered by mailers pursuant to ICM agreements.
  - i. How accurate were the volume estimation methods and techniques that were used?
  - ii. If the measures were not entirely successful, what changes to these methods and techniques were adopted to make them more successful?

RESPONSE:

a.-b. I acted as staff-level Program Manager for International Customized Mail agreements only in 1996. My duties included reviewing ICM applications and worksheets to ensure the forms were properly completed, creating customer proposals for internal approval, facilitating the development of rates and services with various cross-functional groups, and meeting with customers to present ICM agreements. I did not personally negotiate ICM agreements; nor did I set the rates that were offered to customers. Rather, at that time, I was responsible for creating a administrative process

to guide the efforts of the cross-functional team that included International Pricing, International Operations, Product Development, Mailing Standards, and International Sales Specialists.

In subsequent years, my activities focused on specific international mail services to certain countries. I wrote mail preparation requirements for ICM customers, and assisted with the development of mail preparation requirements and acceptance procedures and with ongoing customer support related to these specific products and countries. Beginning in 2002, my duties consisted primarily of monitoring the actual volumes tendered based on postal records and continuing to assist in the implementation of ICM agreements.

There are several important differences between ICMs and NSAs. For example, unlike NSAs, which involve direct negotiation of prices and volume thresholds with the customer,<sup>1</sup> ICM agreements are generally available to all international customers who will tender at least 1 million pounds of international letter-post mail (excluding Global Priority Mail) or pay of at least \$2 million in international letter-post postage to the Postal Service on an annualized basis. Once qualified, a customer receives reduced rates for all its volumes tendered to the Postal Service, not just to volumes above a negotiated threshold, as is the case with NSAs. For this reason, projections of before-agreement volumes are not done for ICMs.

---

<sup>1</sup> I was not personally responsible for negotiating the Bookspan NSA. My duties as part of the NSA team in this case involved reconciliation of Bookspan and Postal Service data, integration of research into the market, and analysis of potential impacts on postal finances of various options considered during negotiations, as well as of the final NSA, the latter being the main subject of my testimony.

REVISED RESPONSE OF POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

c. i.-iii. The table below shows the number of ICM agreements entered into by the Postal Service in FYs 1997 through 2005. This information is not available for years prior to FY 1997. These are not broken down by results as requested, since the agreements are structured prospectively to ensure a positive contribution and they are not reviewed retrospectively in the manner the question assumes.

The Postal Service constructs ICM agreements so as to ensure revenue surpluses in the following manner. The Postal Service ascertains the cost for the relevant product through its data systems. To these costs, a factor is added to account for estimated future cost increases. In every instance, the discounted ICM rate is set so that it exceeds these costs and provides a contribution above them. In this manner, each of these ICM agreements resulted in a surplus.

FY	Number of ICM Agreements
FY1997	11
FY1998	22
FY1999	21
FY2000	23
FY2001	40
FY2002	41
FY2003	33
FY2004	28
FY2005	33

d. i.-ii. In 2003, it was determined to add a provision to ICM agreements to provide for interim rate increases for products that had more than a 5 percent increase in costs, as indicated by the most recent ICRA. Also, the Postal Service had discontinued discounted rates for specific products based on weight groups to a specific country and held the term of all ICM agreements would have a term of no longer than one year. And, finally, the Postal Service set a minimum cost coverage for all ICM

rates; no discounts are available if that minimum level cannot be met, even where the overall cost coverage for the service is lower than the minimum.

e. i.-ii. As explained above, volume estimation is not part of the ICM process, unlike the NSA process. Consequently, when awarding an ICM agreement, the Postal Service concerned itself with the ability of the potential customer to meet the volume minimum, rather than with an estimate of volumes that would be entered by mailers pursuant to the agreement. As indicated above, I monitor actual volume and revenue for each agreement based on the contract period.

With respect to the NSA process, it should also be remembered that the Postal Service does not project the company's volumes. Rather, it reviews the company's projected volumes for reasonableness, based on our familiarity with the customer's postal business record and our knowledge of and research into the market in which the customer operates.

Finally, with respect to the success of the ICM program, the Postal Service's Inspector General has concluded that "the ICM program had an overall positive contribution of approximately \$6 million" in FY 2003.<sup>2</sup>

---

<sup>2</sup> Audit Report – International Customized Mail Agreements (Report Number MS-AR-05-001) (August 16, 2005).

OCA/USPS-T2-12.

- a. Please explain how it is to the advantage of the Postal Service to have asymmetric threshold adjustments, i.e., if actual volumes are **12** percent or more above that year's commitment, then the next year's volume commitment will be an **average** of the current year and original volume commitment; but if volume is **5** percent or more below that year's commitment, then the next year's volume commitment is decreased by the **full** percentage difference between the actual volume and the original commitment.
- b. Please confirm that these adjustments are skewed strongly in favor of Bookspan. If you do not confirm, then please explain.

RESPONSE:

- a. The adjustment thresholds were designed to allow for unforeseeable changes in market conditions and to reduce risk for the Postal Service and Bookspan. As part of the negotiation process, both parties agreed that if a volume increase occurred above the forecast, this mechanism would create an adjustment for continuing the incentive in the next year's threshold. As growth continues above forecasted levels, the mechanism protects the Postal Service by upwardly adjusting the incentive level. However, if the market were impacted by unforeseen circumstances causing a decline of solicitation volumes, the mechanism provides for an adjustment so that the utility of volume incentives would not be irretrievably lost. Both upward and downward adjustments therefore encourage an increase of Standard Mail that may not have been possible otherwise.
- b. Redirected to witness Plunkett.



OCA/USPS-T2-13. In your testimony, at 8, you describe an upswing in volumes for Bookspan in 2004. You further state that: "Bookspan explained to us that this was a one-time occurrence in response to new legislation limiting telephone solicitation . . . ."

- a. What corroborative evidence do you have that this is a "one time occurrence?" Provide all such evidence.
- b. Is it your understanding that the new legislation limiting telephone solicitation is permanent and not limited to 2004? If your answer is negative, please explain fully.
- c. Please provide a citation to the new legislation limiting telephone solicitation.

RESPONSE:

- a. My understanding is that when the legislation took effect, Bookspan had to discontinue its marketing channel of telephone solicitation. As a consequence, the money that Bookspan had budgeted for telephone solicitation in 2004 was reallocated to its direct mail market programs. Please see the response of witness Epp to OCA/Bookspan-T2-2-5.
- b. The no call legislation will exist beyond 2004; however, my understanding is that Bookspan is not allocating budget amounts to telemarketing. Please see the response of witness Epp to OCA/Bookspan-T2-2-5.
- c. Counsel has advised me that the legislation I referred to is cited as the Do-Not-Call Implementation Act, Pub. L. No. 108-10, 117 Stat. 557 (2003), 15 U.S.C. § 6101. y

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

78

OCA/USPS-T2-15. Please refer to your response to OCA/USPS-T2-9(g). If Bookspan's actual mail volume is 10.48 percent ( $0.104761904762$ ) below the Year 2 negotiated volume commitment, or 85.048 million ( $95 \text{ million} * (1.00 - 0.1048)$ ), please confirm that the Year 3 adjusted volume commitment will be 94 million ( $105 \text{ million} - (105 \text{ million} * 0.1048)$ ). If you do not confirm, please explain.

RESPONSE:

Confirmed.

OCA/USPS-T2-16. Please refer to your response to OCA/USPS-T2-10, where it states "The Postal Service recognizes that Bookspan has been converting flats to letters for some time and has incentives to continue to do so independent of the NSA."

- a. What "incentives" does Bookspan have to convert Standard Mail flats to letters independent of the NSA? Please explain.
- b. Is Bookspan the only Standard Mailer that has "incentives" to convert Standard Mail flats to letters independent of an NSA? Please explain.

RESPONSE:

a. The postage rate differential provides an incentive for any mailer to consider the appropriateness of using a letter-size format rather than a flat-size format. The rate differential that Bookspan would consider is 2.4 cents (Appendix A, page 5, line 4 minus page 3, line 4). Additionally, from an operational perspective, mail preparation requirements for letter-size formats lend themselves to a more automated environment. For example, letter-size Standard Mail is prepared and presented in trays compared to flat-size Standard Mail which is bundled and then sacked or palletized. Likewise, preparation cost differential provides a further incentive for mailers to consider the appropriateness of using a letter-size format rather than a flat-size format.

b. No, please refer to part a.

OCA/USPS-T2-17. Please refer to your response to POIR No. 1, Question 1.

- a. Attachment 1, at pages 2 and 3, provided in response to Question 1(a)(i) and (ii), shows monthly and quarterly data for letters and flats separately for Fiscal Years 2003 and 2004. Please provide the monthly and quarterly data for letters and flats separately for Fiscal Year 2002.
- b. Refer to the response to Question 1(c), where it states "The analysis described in that subpart constitutes one of the ways in which the Postal Service attempts to model customer specific demand when a dearth of empirical information makes a more formulaic approach impractical." Other than the analysis described in the subpart, did the Postal Service develop any other analysis to model Bookspan's customer specific demand? Please explain.

RESPONSE:

- a. Please see the attachment to this answer.
- b. No, a customer specific demand was not developed for Bookspan.

Attachment to response to OCA/USPS-T2-17.a  
 New Membership Volume Trend  
 FY2002 Monthly and Quarterly Volume

	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02
Letters	6,779,311	1,029,651	15,879,577 23,688,539	4,174,004	8,049,997	204,950 12,428,951	12,614,334	3,538,300	11,907,341 28,059,975	269	14,884,019
Flats	13,710,634	5,765,586	47,203,185 66,679,405	2,447,405	15,653,381	4,972,552 23,073,338	26,969,725	20,166,985	34,481,991 81,618,701	2,816,263	26,874,253

OCA/USPS-T2-18. Please refer to your testimony, Appendix A, page 3. For Fiscal Years 2002 and 2003, please provide the average revenue per piece for Bookspan's Standard Mail Regular letter-size pieces.

RESPONSE:

FY2002 data are not available.

FY2003 revenue per piece for Bookspan's Standard Mail regular letter-size solicitation volume is \$0.181

OCA/USPS-T2-19. Please refer to your testimony, Appendix A, page 3.

- a. For Fiscal Year 2005 to date, please provide the average revenue per piece for Bookspan's Standard Mail Regular letter-size pieces.
- b. For projected Fiscal Year 2005, please provide the average revenue per piece for Bookspan's Standard Mail Regular letter-size pieces.

RESPONSE:

- a. FY2005 year-to-date revenue per piece is \$0.182.
- b. With 2 months remaining for the closing of FY 2005, we project FY 2005 revenue per piece to be the same as the year-to-date revenue per piece, \$0.182.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

1. Please refer to USPS-T-2, Section IV. A. (pages 7-10) which describes the Postal Service's evaluation of Bookspan's before rates Standard Mail volume forecasts as comparable to that performed in evaluating previous NSAs. Also please refer to the May 18, 2005 Revised Declaration of Michael K. Plunkett in support of the Postal Service's Reconsideration Memorandum in Docket No. MC2004-3.
  - a. Section C of his declaration, Plunkett states that the Postal Service extrapolates the mailer's volume history in a linear fashion into the future, generating separate trend analyses for subsets of volume, and (in the case of Bank One) running a simple regression to identify correlation between the categories of mail. In evaluating Bookspan's before rates Standard Mail volume forecast, did the Postal Service:
    - i. Develop any independent estimates of future before rates volumes using trend analysis? If so, please provide them, including supporting documents and electronic workpapers (e.g., Excel spreadsheets).
    - ii. Perform separate trend analysis for the subsets of Bookspan's mail (e.g., letters and flats)? If so, please provide the results, including supporting documents and electronic workpapers.
    - iii. Run any regressions to identify any correlation between different categories of Bookspan's mail volume (e.g., letters and flats)? If so, please provide the results, including supporting documents and electronic workpapers.
  - b. In Section D of his declaration, Plunkett describes the derivation of a demand function specific to marketing mail for Bank One based on economic variables. Did the Postal Service derive a demand function specific to Bookspan's mail volume based on economic variables? If so, please provide the model specification and results, including diagnostic statistics. Also please include supporting documents and electronic workpapers explaining the selection of the functional form, the development of the model specification, and the data used.

RESPONSE:

- (a) (i) and (ii) I developed independent estimates of Bookspan's future before rates volumes using forecast trend analysis as demonstrated in Attachment 1. The analysis included a separate trend analysis for Bookspan's Standard Mail letter-size and flat-size volume and a combined trend analysis for the total solicitation Standard Mail volume. My analysis is shown in Attachment 1, which consists of three worksheets using forecast projections based on yearly, monthly, and quarterly volumes. The forecast ranges were based on specific data points, extracted from



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

CBCIS. The forecast ranges were developed for three distinct data sets using the Excel forecast function. These initial forecast ranges provided the framework to analyze projections provided by Bookspan. While the electronic worksheet presents an iteration of volume projections based on actual volume numbers, it is important to keep in mind that when this model is used in practice, the analysis is more dynamic. For example, FY 2004 was identified as *atypical fairly early in the course of our discussions with Bookspan*, because of the legislative change affecting telephone solicitation, as I mentioned in my testimony. Based on our discussions with Bookspan, I refined the analysis using different volume assumptions to make alternative forecasts. The worksheet is built to support multiple iterations based on discussions with customers, and looking at a single iteration is not an ideal representation of how this worksheet is used in practice.

It should also be noted that the type of analysis possible in the Bookspan case is necessarily different from what was possible in the Bank One case. When the Bank One agreement was consummated, the Postal Service had experience analyzing a number of different customers in the same industry, and had already acquired several years' worth of experience with credit card banks. Moreover, credit card banks are publicly traded companies. Consequently, there is a wealth of readily available information to support the analysis described in witness Plunkett's declaration. The Bookspan agreement was crafted for a privately held company *occupying a unique niche in a different industry..* It would therefore have been impossible to perform as comprehensive analysis as described in the Bank One declaration.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

(iii) No, I did not run a regression of the type described above.

b. The Postal Service did not independently derive a demand function of this type.

However, as stated in my testimony, consideration was given to the decline in the number book club memberships and the maturity of the book industry overall. As a result, the economic variables are likely to have less of an impact on the demand of marketing mail in the book club industry. Also, see my response to part a. The analysis described in that subpart constitutes one of the ways in which the Postal Service attempts to model customer specific demand when a dearth of empirical information makes a more formulaic approach impractical.

REVISED 10/18/05  
Attachment 1  
Page 1 of 2

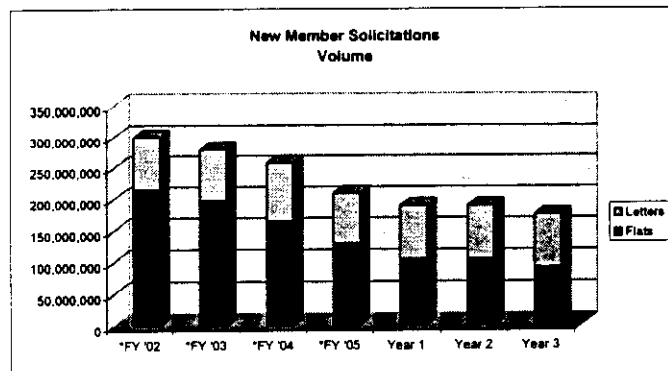
Response to POIR 1, Question 1.a.i and ii

**New Membership Volume Forecast**

**Yearly Forecast**

Fiscal Year		Flats	Letters	Total
*FY '02	1	215,324,821	84,894,802	300,019,723
*FY '03	2	196,831,597	82,991,923	279,823,520
*FY '04	3	164,378,427	84,014,758	258,393,183
*FY '05	4	129,782,945	79,403,578	209,186,523
Year 1	5	104,319,698	84,063,555	188,383,253
Year 2	6	104,319,698	84,063,555	188,383,253
Year 3	7	90,564,979	83,832,563	174,397,542

\*Source: USPS CBCIS



REVISED 10/18/05

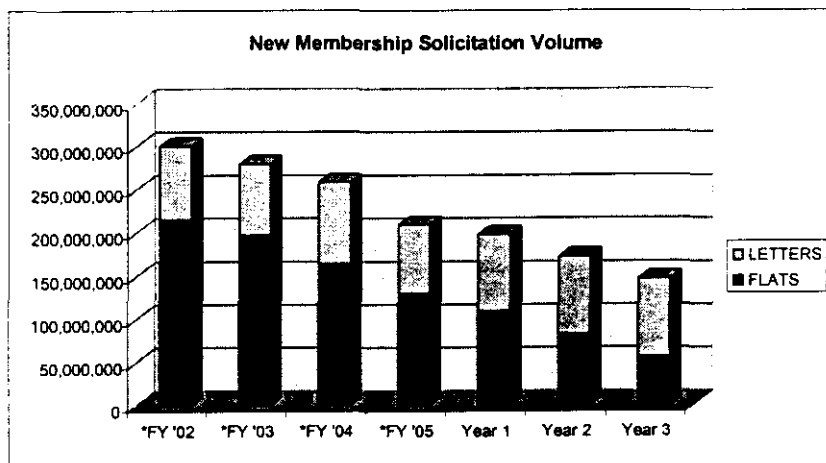
Attachment 1

Page 2 of 2

Response to POIR 1, Question 1.a.I and II  
 New Membership Volume Forecast  
 Quarterly Forecast

Fiscal Year	LETTERS	FLATS	Total
*FY '02	84,694,802	215,324,921	300,019,723
*FY '03	82,991,923	196,631,597	279,623,520
*FY '04	94,014,756	164,378,427	258,393,183
*FY '05	79,403,578	129,792,945	209,196,523
Year 1	88,294,499	109,484,103	197,778,602
Year 2	89,501,792	82,664,955	172,166,748
Year 3	90,709,086	55,845,808	146,554,893

\*Source: USPS CBCIS



	Letters	YR TOT Flats	YR TOT
FY02 QTR1	1 23,688,539	66,679,405	
FY02 QTR2	2 12,428,951	23,073,338	
FY02 QTR3	3 28,059,975	81,618,701	
FY02 QTR4	4 20,517,337	84,694,802	215,324,921
FY03 QTR 1	5 11,885,652	23,587,176	
FY03 QTR2	6 32,116,852	78,809,981	
FY03 QTR 3	7 20,880,320	45,616,463	
FY03 QTR 4	8 18,109,099	82,991,923	196,631,597
FY04 QTR1	9 10,159,822	17,413,700	
FY04 QTR2	10 29,213,594	58,864,173	
FY04 QTR3	11 22,233,248	37,924,858	
FY04 QTR4	12 32,408,092	94,014,756	164,378,427
FY05 QTR1	13 22,296,868	52,908,785	
FY05 QTR2	14 15,100,030	28,494,471	
FY05 QTR3	15 23,315,623	25,989,382	
FY05 QTR4	16 18,690,837	79,403,578	129,792,945
YR1 QTR1	17 21,960,441	29,885,321	
YR1 QTR2	18 22,035,897	28,209,124	
YR1 QTR3	19 22,111,353	26,532,927	
YR1 QTR4	20 22,186,808	88,294,499	109,484,103
YR2 QTR1	21 22,262,264	23,180,534	
YR2 QTR2	22 22,337,720	21,504,337	
YR2 QTR3	23 22,413,176	19,828,141	
YR2 QTR4	24 22,488,632	89,501,792	82,664,955
YR3 QTR1	25 22,564,088	16,475,747	
YR3 QTR2	26 22,639,543	14,799,550	
YR3 QTR3	27 22,714,999	13,123,354	
YR3 QTR4	28 22,790,455	90,709,086	55,845,808

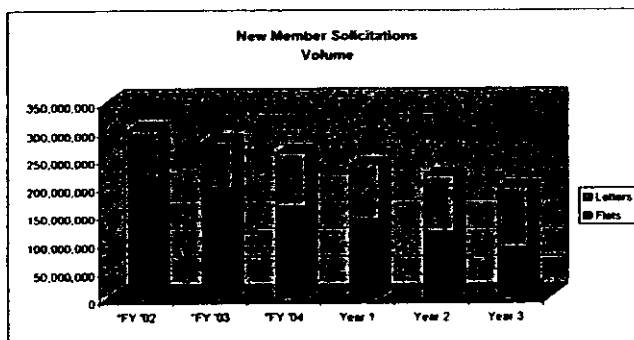
## Response to POIR 1, Question 1.aJ and B

## New Membership Volume Forecast

## Yearly Forecast

Fiscal Year		Flats	Letters	Total
FY '02	1	215,324,924	84,894,802	300,019,723
FY '03	2	196,631,597	82,991,923	279,623,520
FY '04	3	164,378,427	94,014,756	258,393,183
Year 1	4	141,125,154	96,553,781	237,718,935
Year 2	5	115,691,503	101,213,756	216,905,665
Year 3	6	90,218,664	105,872,735	196,092,395

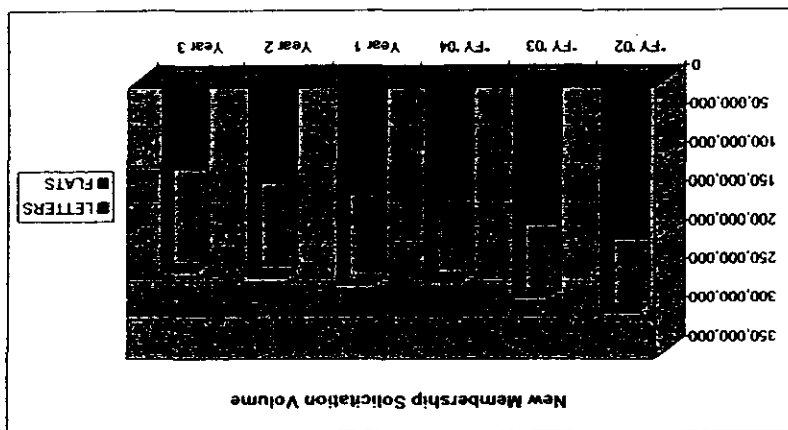
\*Source: USPS CBCIS



CM Sld Letters	124,029,386	126,770,515	122,916,542	123,459,304	122,502,882	122,346,460
	1	2	3	4	5	6

Fiscal Year	LETTERS	FLATS	Total
FY 02	84,694,802	215,324,921	300,019,723
FY 03	82,991,923	196,631,597	279,623,520
FY 04	94,014,756	164,378,427	258,393,183
Year 1	1103,779,316	156,173,599	267,552,917
Year 2	1172,052,063	142,104,574	254,156,638
Year 3	1120,324,808	125,435,550	245,760,358

Source: USPS CBGIS



FY02 QTR1	23,688,539	66,679,405	90,367,944
FY02 QTR2	12,428,951	23,073,338	35,502,289
FY02 QTR3	28,059,975	81,618,701	109,678,676
FY02 QTR4	20,517,337	43,953,477	64,470,814
FY03 QTR1	11,885,652	23,587,176	35,472,828
FY03 QTR2	32,116,852	78,809,981	110,926,833
FY03 QTR3	20,880,320	45,616,463	66,496,783
FY03 QTR4	18,109,099	48,617,977	66,727,076
FY04 QTR1	10,159,822	17,413,700	27,573,522
FY04 QTR2	29,213,594	58,864,173	88,077,767
FY04 QTR3	22,233,248	37,924,858	60,158,106
FY04 QTR4	32,408,092	50,175,696	82,583,788
YR1 QTR1	25,168,260	41,256,121	66,424,381
YR1 QTR2	28,686,006	40,214,267	68,900,273
YR1 QTR3	28,505,355	35,172,193	63,677,548
YR1 QTR4	26,730,399	38,130,615	64,861,014
YR2 QTR1	27,227,446	37,088,885	64,316,331
YR2 QTR2	27,754,492	36,047,651	63,802,143
YR2 QTR3	28,271,539	35,005,237	63,276,776
YR2 QTR4	28,271,539	35,005,237	63,276,776
YR3 QTR1	29,305,122	32,921,609	62,226,731
YR3 QTR2	29,822,679	31,879,154	61,701,833
YR3 QTR3	30,339,725	30,837,960	61,177,685
YR3 QTR4	30,856,772	29,792,168	60,648,940
YR TOT	84,694,802	215,324,921	300,019,723

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

2. Refer to USPS-T-2, Appendix A, pages 4 and 6. Please provide electronic workpapers showing the development of the TYBR 2006 Total Unit Cost figures in columns 1 and 9 of each of these two tables.

RESPONSE:

Please see Attachment 2, which contains a color coded index that sources each input to calculate the development of the TYBR 2006 Total Unit Cost figures in columns 1 and 9. Please also note that Attachment 2 can be used to update Appendix A of my testimony to include the latest revision of USPS-LR-K-67, which was modified after preparation of my testimony.

Response to POIR 1, Question 2, Attachment 2

TY06 Unit Costs (cents per piece)

Piggyback Factors Applied

Standard Mail - Regular Rate

	(1) C/S 3.1 Cik/Mh	(2) C/S 3.2 Cik/Mh	(3) C/S 6.1 City Carrier In-Office	(4) C/S 6.2 City Carrier Support	(5) C/S 7.3 City Carrier Deliv Actv	(6) C/S 7.4 City Carrier Street Support	(7) C/S 8 Vehicle Service	(8) C/S 10 Rural Carriers	(9) Delivery Cost	(10) C/S 14 Air & Water	(11) C/S 14 Highway & Railroad	(12) Other	(13) Total
Shape and Preparation	Mail Proc	Window											
Nonauto Basic Presort Letters	17.407	0.094					0.065		0.022	0.322	0.138		23.459
Nonauto 3/5 Presort Letters	15.030	0.094					0.065		0.022	0.322	0.138		21.956
Auto Mixed AADC Presort Letters	4.660	0.094					0.065		0.022	0.322	0.138		9.406
Auto AADC Presort Letters	3.942	0.094					0.065		0.022	0.322	0.138		8.474
Auto 3-digit Presort letters	3.690	0.094					0.065		0.022	0.322	0.138		8.126
Auto 5-digit Presort letters	2.819	0.094					0.065		0.022	0.322	0.138		6.998
Nonauto Basic Flats		0.12	4.30	1.25	1.66	0.20	0.28	1.88	0.113	1.390	0.707		35.053
Nonauto 3/5 digit Flats		0.12	4.30	1.25	1.66	0.20	0.28	1.88	0.113	1.390	0.707		26.433
Auto Basic Flats		0.12	4.30	1.25	1.66	0.20	0.28	1.88	0.113	1.390	0.707		34.656
Auto 3/5 digit Flats		0.12	4.30	1.25	1.66	0.20	0.28	1.88	0.113	1.390	0.707		26.047

Standard Mail - Enhanced Carrier Route

	C/S 3.1 Cik/Mh	C/S 3.2 Cik/Mh	C/S 6.1 City Carrier In-Office	C/S 6.2 City Carrier Support	C/S 7.3 City Carrier Deliv Actv	C/S 7.4 City Carrier Street Support	C/S 8 Vehicle Service	C/S 10 Rural Carriers	Delivery Cost	C/S 14 Air & Water	C/S 14 Highway & Railroad	Other	Total
Shape and Preparation	Mail Proc	Window											
Auto Basic Letters		0.02					0.07		0.00	0.09	0.05		4.578
Basic Letters		0.02					0.07		0.00	0.09	0.05		9.344
Basic Flats		0.02					0.23		0.02	0.30	0.23		9.633

Sources:

(1) Cost Segment 3.1

For Standard Regular Letters: Docket No. R2005-1, USPS-LR-K-46, Revised 5/24/05, LR-K-46STDLETTERSRevisedV4.xls, Table 1, Tab Letter Sum, Total Mail Processing Unit Cost

For Nonauto 3/5 Presort Letters: Docket No. R2005-1, USPS-T-19, Table 1

For Auto Mixed AADC Presort Letters: Docket No. R2005-1, USPS-LR-K-84, Table 1

(2), (3), (4), (5), (6), (7), (8), (10), (11) and (12): Docket No. R2005-1, USPS-LR-K-119, Table 1, Tab Unit Cost

(9) Delivery Costs represent a more disaggregated version of the data otherwise provided in (3), (4), (5), (6) and (8)

For Nonauto 3/5 Presort Letters: Docket No. R2005-1, USPS-LR-K-67, Worksharing Related Delivery Unit Costs

For Auto Basic Letters and ECR Letters and Flats: Docket No. R2005-1, USPS-LR-K-67, Worksharing Related Delivery Unit Costs, Revised 6/9/05

(13) Sum of (1) through (12)



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

3. Please refer to USPS-T-2, Appendix A, pages 5 and 6. The calculation of Bookspan's average unit cost for non-letters assumes that for each category (presort level) Bookspan's unit cost is equal to the USPS average. In contrast, the calculation of Bookspan's average revenue per piece for non-letters utilizes unit revenues that, for each category (presort level), are below the USPS average. For example, both the USPS and Bookspan unit cost of Standard Regular Auto 3/5 Digit non-letters is 26.0 cents, whereas the USPS unit revenue for that category is 28.9 cents and the Bookspan unit revenue for that category is 23.9 cents. This implies that, while the Postal Service receives an average contribution of 2.9 cents (28.9 - 26.0) for Standard Regular Auto 3/5 Digit non-letters, it receives an average contribution of *negative* 2.1 cents (23.9 - 26.0) for mail in the same category sent by Bookspan.
  - a. Please discuss the rationale for assuming that the cost of Bookspan's non-letters for each presort level is equal to the average for the Postal Service, when Bookspan's revenue for each presort level is significantly lower than the average for the Postal Service.
  - b. Please provide an electronic copy of the billing determinants that lead to the development of the Bookspan revenues per piece for non-letters in column 1 of USPS-T-2, Appendix A, page 5.
  - c. Please also provide an electronic copy of the billing determinants that lead to the development of the Bookspan revenues per piece for letters in column 1 of USPS-T-2, Appendix A, page 3.

RESPONSE:

3.a. The Postal Service has not conducted an independent evaluation of the costs of Bookspan's specific mail. I have used the Postal Service's average cost as a fair representation of their costs. As in past NSAs, the Postal Service has used the Postal Service's average costs as fair representations of the mailer's costs in the absence of more detailed information which would indicate that adjustments to the postal average costs were warranted. However, more detailed information regarding Bookspan's revenue per piece figures at each presort, shape and automation category were available and were incorporated into my presentation. I do note that the information in Appendix A attempted to use the most disaggregated unit cost information available in the R2005-1 filing. By applying those unit costs to the Bookspan-specific billing

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

determinants, an attempt was made to indicate the difference in the weighted average unit costs for Bookspan relative to those for the entire set of Standard Mail users.

There are several reasons that the Bookspan average revenue per piece would be lower than that of the Postal Service average at each presort and automation category. Specifically with regard to non-letters, you will note in my Attachment 4 to subpart b of this question, all of Bookspan's nonletter pieces are mailed at the piece rate, which is to say that they weigh less than the breakpoint of 3.3 ounces. In contrast, examination of the FY 2004 Billing Determinants, filed as USPS-LR-K-77 in Docket No. R2005-1, shows that nationwide, only 48.98% of all 3-, 5-, and 3/5-digit Standard Regular nonletters are mailed at the piece rate. The same source shows that only 40.98% of Regular Standard Basic and AADC nonletters are mailed at the piece rate. Within Standard ECR, 49% of Basic ECR nonletters are mailed at the piece rate. Overall, 48.45% of all Standard Regular nonletters are mailed at the piece rate, and 55.29% of all Standard ECR nonletters are mailed at the piece rate.

Bookspan also has a different dropship profile than does the category of Standard Mail nonletters as a whole. As can be seen in the spreadsheets in the Attachment 3 to this response, in general, at every level of presort and for both letters and nonletters, Bookspan tends to utilize the dropship discounts more than do Standard Mail users on average. Specifically, with regard to the Standard Regular Auto 3/5-digit nonletters category in question, 47.24% of Bookspan's pieces are dropshipped to the Destination SCF; 46.94% of Bookspan's pieces are dropshipped to the Destination BMC; and only 5.82% of Bookspan's Standard Regular Auto 3/5-digit nonletters are not dropshipped. In contrast, nationwide, 32.62% of this type of nonletters from all mailers

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

are not dropshipped; 35.76% are dropshipped to the Destination BMC; and 31.62% are dropshipped to the Destination SCF.

To the extent that the rates applicable to pieces above and below the breakpoint and for differing levels of dropship activity reflect underlying cost differences, it is reasonable to assume that the fact that Bookspan's mail exhibits lower unit revenues than do the national averages, there are also lower costs that have not been adequately reflected in the unit costs that were used as proxies for Bookspan's unit costs.

- b. See Attachment 4, worksheet "Non-letters."
- c. See Attachment 4, worksheet "Letters."

# Response to POIR 1, Question 3a, Attachment 3

## Comparison of USPS and Bookspan Use of Dropship by Presort and Automation Categor

### Standard Mail Regular Subclass

MAIL CATEGORY	Bookspan <u>Pieces</u>		USPS <u>Pieces</u>	
<b>Non-Auto Basic Letters</b>	<b>1,518,805</b>		<b>793,501,993</b>	
No Destination Entry	1,000,573	65.88%	594,876,060	74.97%
BMC Destination Entry	405,402	26.69%	146,280,755	18.43%
SCF Destination Entry	112,830	7.43%	43,849,673	5.53%
<b>Non-Auto 3/5-digit Letters</b>	<b>58,859</b>		<b>1,065,186,190</b>	
No Destination Entry	23,224	39.46%	591,966,548	55.57%
BMC Destination Entry	2,607	4.43%	82,737,138	7.77%
SCF Destination Entry	33,028	56.11%	390,482,504	36.66%
<b>Auto Mixed AADC Letters</b>	<b>7,078,780</b>		<b>1,950,273,409</b>	
No Destination Entry	6,088,744	86.01%	1,798,689,313	92.23%
BMC Destination Entry	990,036	13.99%	151,584,096	7.77%
<b>Auto AADC Letters</b>	<b>12,572,357</b>		<b>2,201,484,140</b>	
No Destination Entry	8,324,819	66.22%	1,688,474,686	76.70%
BMC Destination Entry	4,207,936	33.47%	475,483,799	21.60%
SCF Destination Entry	39,602	0.31%	37,525,655	1.70%
<b>Auto 3-digit Letters</b>	<b>60,973,641</b>		<b>15,819,321,120</b>	
No Destination Entry	4,263,380	6.99%	5,660,019,747	35.78%
BMC Destination Entry	47,074,520	77.20%	8,044,469,761	50.85%
SCF Destination Entry	9,635,741	15.80%	2,114,831,612	13.37%
<b>Auto 5-digit Letters</b>	<b>4,830,798</b>		<b>16,402,050,918</b>	
No Destination Entry	22,095	0.46%	2,989,052,573	18.22%
BMC Destination Entry	2,545,761	52.70%	4,517,924,224	27.54%
SCF Destination Entry	2,262,942	46.84%	8,895,074,121	54.23%
<b>Standard Mail Enhanced Carrier Route Subclass</b>				
<b>Nonauto Basic Letters</b>	<b>5,575,871</b>		<b>2,144,903,041</b>	
No Destination Entry	71,681	1.29%	347,310,009	16.19%
BMC Destination Entry	2,867,364	51.42%	366,328,298	17.08%
SCF Destination Entry	2,632,311	47.21%	1,290,134,838	60.15%
DDU Destination Entry	4,515	0.08%	141,129,896	6.58%
<b>Auto Basic Letters</b>	<b>1,405,645</b>		<b>1,914,433,081</b>	
No Destination Entry	50,986	3.63%	267,914,032	13.99%
BMC Destination Entry	695,098	49.45%	558,587,376	29.18%
SCF Destination Entry	659,561	46.92%	1,045,660,165	54.62%
DDU Destination Entry			42,271,508	2.21%

#### Sources:

Bookspan data from Attachment 4 provided in response to POIR1, Question 3c.  
USPS data from USPS-LR-K-77, Docket No. R2005-1.

**Response to POIR 1, Question 3a, Attachment 3**  
**Comparison of USPS and Bookspan Use of Dropship by Presort and Automation Category**

**Standard Mail Regular Subclass**

<b>MAIL CATEGORY</b>	<b>Bookspan Pieces</b>		<b>USPS Pieces</b>	
<b>Basic Nonletters (piece-rated)</b>	<b>29,186</b>		<b>70,830,069</b>	
No Destination Entry	27,821	95.32%	63,297,102	89.36%
BMC Destination Entry	1,365	4.68%	3,106,137	4.39%
DDU Destination Entry			4,426,830	6.25%
<b>3/5-digit Nonletters (piece-rated)</b>	<b>1,367,428</b>		<b>110,008,407</b>	
No Destination Entry	71,446	5.22%	45,469,106	41.33%
BMC Destination Entry	635,777	46.49%	18,338,336	16.67%
SCF Destination Entry	660,205	48.28%	46,200,965	42.00%
<b>Basic Automation Nonletters (piece-rated)</b>	<b>167,112</b>		<b>147,767,711</b>	
No Destination Entry	125,716	75.23%	141,819,699	95.97%
BMC Destination Entry	41,396	24.77%	5,139,348	3.48%
SCF Destination Entry			808,664	0.55%
<b>3/5-digit Automation Nonletters (piece-rated)</b>	<b>97,096,345</b>		<b>5,341,337,519</b>	
No Destination Entry	5,652,918	5.82%	1,742,480,892	32.62%
BMC Destination Entry	45,576,245	46.94%	1,909,942,121	35.76%
SCF Destination Entry	45,867,182	47.24%	1,688,914,506	31.62%
<b>Standard Mail Enhanced Carrier Route Subclass</b>				
<b>Basic Nonletters (piece-rated)</b>	<b>65,718,356</b>		<b>5,584,834,978</b>	
No Destination Entry	552,428	0.84%	321,202,641	5.75%
BMC Destination Entry	12,497,369	19.02%	825,995,384	14.79%
SCF Destination Entry	52,487,892	79.87%	4,331,440,513	77.56%
DDU Destination Entry	180,667	0.27%	106,196,440	1.90%

**Sources:**

Bookspan data from Attachment 4 provided in response to POIR1, Question 3b.  
 USPS data from USPS-LR-K-77, Docket No. R2005-1.

Response to POIR 1, Question 3.c., Attachment 4  
Standard Mail Regular Subclass  
MAIL CATEGORY

	Revenue	Rev/pg	Planes
<b>Non-Auto Basic Letters</b>			
No Destination Entry	398,179	0.262	1,518,805
BMC Destination Entry	270,344	0.270	1,000,573
SCF Destination Entry	100,420	0.248	405,402
	27,415	0.243	112,830
<b>Non-Auto 3/5-digit Letters</b>			
No Destination Entry	13,882	0.236	56,859
BMC Destination Entry	5,820	0.251	23,224
SCF Destination Entry	910	0.234	2,607
	7,452	0.226	33,028
<b>Auto Mixed AADC Letters</b>			
No Destination Entry	1,528,430	0.216	7,078,780
BMC Destination Entry	1,333,403	0.219	6,088,744
	198,027	0.198	990,036
<b>Auto AADC Letters</b>			
No Destination Entry	2,575,843	0.205	12,572,357
BMC Destination Entry	1,764,862	0.212	8,324,819
SCF Destination Entry	803,715	0.191	4,207,936
	7,366	0.186	39,602
<b>Auto 3-digit Letters</b>			
No Destination Entry	11,138,540	0.183	60,973,841
BMC Destination Entry	865,452	0.203	4,263,380
SCF Destination Entry	8,587,562	0.182	47,074,520
	1,705,526	0.177	9,635,741
<b>Auto 5-digit Letters</b>			
No Destination Entry	805,554	0.167	4,830,788
BMC Destination Entry	4,198	0.190	22,095
SCF Destination Entry	430,234	0.169	2,545,761
	371,122	0.164	2,282,942
<b>Standard Mail Enhanced Carrier Route Subclass</b>			
<b>Nonauto Basic Letters</b>			
No Destination Entry	952,819	0.171	5,375,871
BMC Destination Entry	13,806	0.194	71,681
SCF Destination Entry	498,054	0.173	2,867,364
DDU Destination Entry	442,228	0.168	2,632,311
	731	0.162	4,515
<b>Auto Basic Letters</b>			
No Destination Entry	208,820	0.148	1,405,645
BMC Destination Entry	8,719	0.171	50,986
SCF Destination Entry	104,265	0.150	695,098
	95,636	0.145	659,561

Source: CBCIS revenue and volume, Bookspan FY2004

**Response to POIR 1, Question 3.b., Attachment 4**  
**Standard Mail Regular Subclass**  
**Mail Categories**

**MAIL CATEGORY**

	<u>Revenue</u>	<u>Rev/pc</u>	<u>Pieces</u>
<b>Basic Nonletters (piece-rated)</b>	<b>10,917</b>	<b>0.374</b>	<b>29,186</b>
No Destination Entry	10,425	0.375	27,821
BMC Destination Entry	492	0.360	1,365
<b>3/5-digit Nonletters (piece-rated)</b>	<b>395,959</b>	<b>0.290</b>	<b>1,367,428</b>
No Destination Entry	21,383	0.299	71,446
BMC Destination Entry	172,137	0.271	635,777
SCF Destination Entry	202,438	0.307	660,205
<b>Basic Automation Nonletters (piece-rated)</b>	<b>49,264</b>	<b>0.295</b>	<b>167,112</b>
No Destination Entry	37,715	0.300	125,716
BMC Destination Entry	11,550	0.279	41,396
<b>3/5-digit Automation Nonletters (piece-rated)</b>	<b>23,192,500</b>	<b>0.239</b>	<b>97,096,345</b>
No Destination Entry	1,475,412	0.261	5,652,918
BMC Destination Entry	10,938,299	0.240	45,576,245
SCF Destination Entry	10,778,790	0.235	45,867,182
<b>Standard Mail Enhanced Carrier Route Subclass</b>			
<b>Basic Nonletters (piece-rated)</b>	<b>11,116,945.68</b>	<b>0.169</b>	<b>65,718,356</b>
No Destination Entry	107,560	0.195	552,428
BMC Destination Entry	2,162,047	0.173	12,497,369
SCF Destination Entry	8,818,066	0.168	52,487,892
DDU Destination Entry	29,272	0.162	180,667

Source: CBCIS revenue and volume, Bookspan FY2004

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

4. Bookspan witness Epp states that the significant drop in the before rates volume forecast for the first year of the agreement is "primarily due to the anticipated 5.4% increase in postage rates." Bookspan-T-2, page 11, lines 12-13.
  - b. The unit costs and revenues utilized to estimate the financial impact of the agreement in Appendix A are from the (R2005-1) test year before rates and base year, respectively. They therefore reflect the set of rates currently in effect.
    - i. Please explain the rationale for applying unit costs and revenues that do not reflect the effects of implementing the R2005-1 proposal to volumes that do reflect the effects of the R2005-1 proposal.
    - ii. Please provide a version of Appendix A using unit costs and revenues that reflect the effects of implementing the R2005-1 proposed rates.

RESPONSE:

4.b.

- i. The rates proposed by the Postal Service in Docket No. R2005-1 were not applied to Bookspan volumes to develop revenue estimates in this case, as the Commission has not yet issued a recommended decision in Docket No. R2005-1. It is my understanding that it is not standard practice for the Postal Service to develop and provide Test Year After Rates unit costs at a disaggregated level (e.g., for particular shape and presort profiles) in omnibus rate cases because the rate design is performed with TYBR disaggregated unit costs. Thus, unit costs at the disaggregated levels that I used in my spreadsheets were not available for TYAR.
- ii. As I noted in my response to part (i) above, disaggregated unit costs are not available in Docket No. R2005-1 for TYAR. However, in Attachment 5 to this response, I have approximated TYAR disaggregated unit costs by taking the TYBR disaggregated unit costs originally filed with my testimony and multiplying



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

them by the ratio of the R2005-1 TYAR unit cost for the subclass level to the TYBR unit cost for the subclass level. Thus, the disaggregated unit costs are adjusted by the TYAR to TYBR ratio of unit costs for Standard Regular and Standard ECR as appropriate.

As I do not know exactly which rate elements Bookspan has utilized in their mailings and which contribute to the revenue per piece figures in my spreadsheets, I have proxied the TYAR revenues by adjusting the TYBR revenue per piece figures upward by 5.4%.

## Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement

Appendix A, page 1

	FY 2006	FY 2007	FY 2008
(1) Inflation cost adjustment factor	4.0%	4.0%	4.0%
(2) Conversion of Standard Mail Flats to Standard Mail Letters	63.0%	63.3%	62.5%
(3) Contingency Factor	1.00		

- (1) Docket No. MC2004-4/USPS-T-1, pg 13
- (2) Docket No. MC2005-3, Bookspan T-2, p11
- (3) Contingency provision of zero percent, Docket No.R2005-1, USPS-T-6, p. 18.

**Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5**

Negotiated Service Agreement

Appendix A, page 2

FY 2002

FY 2003

FY 2004

FY 2006

FY 2007

FY 2008

Volume calculations (1)				Forecast Volumes (2)		
<b>Before Rates (BR)</b>						
New Membership Std letter-size	84,694,802	82,991,923	94,014,756	78,000,000	75,000,000	75,000,000
New Membership Std Flat-size	215,324,921	196,631,597	164,378,427	137,000,000	129,000,000	130,000,000
<b>Total</b>	<b>300,019,723</b>	<b>279,623,520</b>	<b>258,393,183</b>	<b>215,000,000</b>	<b>204,000,000</b>	<b>205,000,000</b>
<b>After Rates (AR)</b>						
New Membership Std letter-size				105,000,000	105,000,000	107,000,000
New Membership Std Flat-size				120,000,000	110,000,000	110,000,000
<b>Total</b>				<b>225,000,000</b>	<b>215,000,000</b>	<b>217,000,000</b>

(1) CBCIS - FY 2002, 2003, 2004 volumes

(2) Docket No. MC2005-3, Bookspan T-2, p11

# **Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5**

Negotiated Service Agreement

Appendix A, page 3

## **Standard Mail Regular Letter-size Revenue per piece**

Bookspan average			
Mail Category	Revenue per piece (1)	Volume (2)	Revenue (3)
Nonauto Basic		1,518,805	
Nonauto 3/5-Digit		58,859	
Auto Mixed AADC		7,078,780	
Auto AADC		12,572,357	
Auto 3-digit		60,973,641	
Auto 5-digit		4,830,798	
<b>Total</b>		<b>87,033,240</b>	
<b>Revenue per piece</b>			

USPS Totals			
Revenue per piece (5)	Volume (6)	Revenue (7)	
	809,733,939		
	697,779,976		
	2,217,147,820		
	2,496,325,308		
	17,989,964,662		
	19,265,167,055		
	<b>43,476,118,760</b>		

## **Standard Mail ECR Letter-size Revenue per piece**

Mail Category	Revenue per piece	Volume	Revenue
Nonauto Basic Letters		5,575,871	
Auto Basic Letters		1,405,645	
<b>Total</b>		<b>6,981,516</b>	
<b>Revenue per piece</b>			
<b>Average Revenue per piece</b>			

Revenue per piece	Volume	Revenue
	2,204,590,228	
	2,008,138,416	
	<b>4,212,728,644</b>	

- (1) (3)/(2)  
 (2) CBCIS, Bookspan FY2004 volume  
 (3) CBCIS, Bookspan FY2004 revenue x 1.054  
 (4) Bookspan (Standard Mail Regular Revenue + Standard Mail ECR Revenue) / (Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)  
 (5) Docket No. R2005-1, USPS-LR-K-77, FY2004 Standard Mail Regular Billing Determinants x 1.054  
 (6) Docket No. R2005-1 (USPS-T-7, Attachment A, pg 7)  
 (7) (5) x (6)  
 (8) Average USPS (Standard Mail Regular Revenue + Standard Mail ECR Revenue) / (Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)

(8)

(4)

# **Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5**

Negotiated Service Agreement

Appendix A, page 4

## **Standard Regular Unit Cost**

### **LETTERS**

USPS		
Total	Mall	Mall
Unit Cost	Volume	Volume
(Dollars)	(Pieces)	(Percent)
(1)	(2)	(3)
Nonauto Basic	809,733,939	1.9%
Nonauto 3/5-Digit	697,778,977	1.6%
Auto Mixed AADC	2,217,147,820	5.1%
Auto AADC	2,496,325,308	5.7%
Auto 3-digit	17,989,964,663	41.4%
Auto 5-digit	19,265,167,056	44.3%
<b>Total/Average</b>	<b>43,476,117,763</b>	<b>100.0%</b>

## **Standard ECR Unit Cost**

### **LETTERS**

Total	Mall	Mall
Unit Cost	Volume	Volume
(Dollars)	(Pieces)	(Percent)
(8)	(10)	(11)
Nonauto Basic Letters	2,204,590,228	52.3%
Auto Basic Letters	2,008,138,417	47.7%
<b>Total/Average</b>	<b>4,212,728,645</b>	<b>100.0%</b>

## **Bookspan Average Cost per piece**

Bookspan			
FY 2004	FY 2004	FY 2004	Company Avg.
Total	Mall	Mall	Letter Cost
Unit Cost	Volume	Volume	w/Contingency
(Dollars)	(Pieces)	(Percent)	(Dollars)
(4)	(6)	(7)	(8)
	1,518,805	1.7%	
	58,859	0.1%	
	7,078,780	8.1%	
	12,572,357	14.4%	
	60,973,641	70.1%	
	4,830,798	5.6%	
<b>(5)</b>	<b>87,033,240</b>	<b>100.0%</b>	<b>(9)</b>
FY 2004	FY 2004	FY 2004	Company Avg.
Total	Mall	Mall	Letter Cost
Unit Cost	Volume	Volume	w/Contingency
(Dollars)	(Pieces)	(Percent)	(Dollars)
(12)	(14)	(15)	(16)
	5,575,871	79.9%	
	1,405,645	20.1%	
<b>(13)</b>	<b>6,981,516</b>	<b>100.0%</b>	<b>(17)</b>

- (1) Docket No. R2005-1 (USPS-LR-K-48 as revised 05/20/05, USPS-LR-K-67, USPS-LR-K-119) x 1.001
- (2) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (3) Each row in (2) divided by total in (2)
- (4) (1)
- (5) (4) x (7) Bookspan weighted average
- (6) CBCIS, Bookspan FY2004 volume (Appendix A, pg. 3)
- (7) Each row in (6) divided by total in (6)
- (8) Total Unit Cost (5) x Contingency Factor Assumption (Appendix A, pg. 1, (3))
- (9) Docket No. R2005-1 (USPS-LR-K-67, USPS-LR-K-84, USPS-LR-K-119) x 1.001
- (10) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (11) Each row in (10) divided by total in (10)
- (12) (8)
- (13) (12) x (15) Bookspan weighted average
- (14) CBCIS, Bookspan FY2004 volume (Appendix A, pg. 3)
- (15) Each row in (14) divided by total in (14)
- (16) Total Unit Cost (13) x Contingency Factor Assumption (Appendix A, pg. 1, (3))
- (17) ((8)x(6) + (16)x(14)) / ((6) + (14))

**Books - Response to POIR1, Question 4.b.ii, Attachment 5**

## Negotiated Service Agreement

**Appendix A, page 5**

Standard Mail Regular Non-letter Revenue per piece

Books/pan average			
	Revenue per place (1)	Volume (2)	Revenue (3)
<b>Mail Category</b>			
Nonauto Basic		29,186	
Nonauto 3/5 Digit		1,357,428	
Auto Basic		157,112	
Auto 3/5 Digit		97,036,345	
<b>Total</b>		<b>98,660,071</b>	
<b>Revenue per place</b>			

Revenue per place

**Standard Mail ECR Non-letter Revenue per piece**

Mail Category	Revenue per piece	Volume	Revenue
Basic Non-letter		65,718,356	
<b>Total</b>		<b>65,718,356</b>	
<b>Revenue per piece</b>			
<b>Average Revenue per piece</b>			

**Average Revenue per place**

	Revenue per piece	Volume	Revenue
(4)			0.273

(B)

- (1) (3)/(2)
- (2) CBCIS, Bookspan FY2004 volume
- (3) CBCIS, Bookspan FY2004 revenue x 1.054
- (4) Bookspan (Standard Mail Regular Revenue + Standard Mail ECR Revenue) / (Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)
- (5) Docket No. R2005-1, USPS-LR-K-77, FY2004 Standard Mail Regular Billing Determinants x 1.054
- (6) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (7) (5) x (6)
- (8) USPS (Standard Mail Regular Revenue + Standard Mail ECR Revenue) / (Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)

# **Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5**

Negotiated Service Agreement  
Appendix A, page 6

## **Standard Regular Unit Cost**

	USPS			Bookspan			
	Total Unit Cost (Dollars) (1)	Mail Volume (Pieces) (2)	Mail Volume (Percent) (3)	Total Unit Cost (Dollars) (4)	FY 2004 Mail Volume (Pieces) (6)	FY 2004 Mail Volume (Percent) (7)	Company Avg. Letter Cost w/Contingency (Dollars) (8)
<b>NON-LETTERS</b>							
Nonauto Basic		443,471,958,026	3.4%		29,186	0.0%	
Nonauto 3/5 Digit		925,540,123,464	7.1%		1,367,428	1.4%	
Auto Basic		414,714,246,537	3.2%		167,112	0.2%	
Auto 3/5 Digit		11,218,794,042,215	86.3%		97,096,345	98.4%	
<b>Total/Average</b>		<b>13,002,520,370</b>	<b>100.0%</b>		<b>98,660,071</b>	<b>100.0%</b>	

## **Standard ECR Unit Cost**

	USPS			Bookspan			
	Total Unit Cost (Dollars) (9)	Mail Volume (Pieces) (10)	Mail Volume (Percent) (11)	Total Unit Cost (Dollars) (12)	FY 2004 Mail Volume (Pieces) (14)	FY 2004 Mail Volume (Percent) (15)	Company Avg. Letter Cost w/Contingency (Dollars) (16)
<b>NON-LETTERS</b>							
Basic Non-Letters		12,224,335,151	100.0%		65,718,356	100.0%	
<b>Total/Average</b>		<b>12,224,335,151</b>	<b>100.0%</b>		<b>65,718,356</b>	<b>100.0%</b>	

## **Bookspan Average Cost per piece**

(17)

- (1) Docket No. R2005-1 (USPS-LR-K-56, USPS-LR-K-67, USPS-LR-K-119) x 1.001
- (2) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (3) Each row in (2) divided by total in (2)
- (4) (1)
- (5) (4) x (6) Bookspan weighted average
- (6) CBCIS, Bookspan FY2004 volume (Appendix A, pg. 5)
- (7) Each row in (6) divided by total in (6)
- (8) Total Unit Cost (5) x Contingency Factor Assumption (Appendix A, pg. 1, (3))
- (9) Docket No. R2005-1 (USPS-LR-K-67, USPS-LR-K-84, USPS-LR-K-119) x 1.001
- (10) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (11) Each row in (10) divided by total in (10)
- (12) (9)
- (13) (12) x (15) Bookspan weighted average
- (14) CBCIS, Bookspan FY2004 volume (Appendix A, pg. 5)
- (15) Each row in (14) divided by total in (14)
- (16) Total Unit Cost (13) x Contingency Factor Assumption (Appendix A, pg. 1, (3))
- (17) ((8)x(6) + (16)x(14)) / ((6) + (14))

**Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5**  
**Negotiated Service Agreement**  
**Appendix A, page 7**

**Agreement Structure**

FY2006			FY2007			FY2008		
Threshold		Discount	Threshold		Discount	Threshold		Discount
87,000,001	120,000,000	\$ 0.020	85,000,001	110,000,000	\$ 0.020	94,000,001	100,000,000	\$ 0.010
120,000,001	150,000,000	\$ 0.030	110,000,001	150,000,000	\$ 0.030	100,000,001	120,000,000	\$ 0.020
						120,000,001	150,000,000	\$ 0.030

**Discount on volume above threshold**

(1) Before Rates Forecast	78,000,000	75,000,000	75,000,000
(2) After Rates Forecast	105,000,000	105,000,000	107,000,000
(3) Discount in first tier	\$ 360,000	\$ 400,000	\$ 60,000
Discount in second tier	\$ -	\$ -	\$ 140,000
Discount in third tier	\$ -	\$ -	\$ -
(4) <b>Discount Earned</b>	<b>\$ 360,000</b>	<b>\$ 400,000</b>	<b>\$ 200,000</b>

**Exposure on volume above threshold**

(5) Threshold	87,000,001	85,000,001	94,000,001
(6) Before Rates Forecast	78,000,000	75,000,000	75,000,000
(7) Exposed Pieces	-	-	-
(8) After Rates Forecast	105,000,000	105,000,000	107,000,000
(9) Discount Exposure in first tier	\$ -	\$ -	\$ -
Discount Exposure in second tier	\$ -	\$ -	\$ -
Discount Exposure in third tier	\$ -	\$ -	\$ -
(10) <b>Total Exposure</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

- (1) Before Rates Total Volume (Appendix A, pg. 2)
- (2) After Rates Total Volume (Appendix A, pg. 2)
- (3) Discount Earned per discount tier based on rate chart above.
- (4) Sum of discounts earned in first tier to fifth tier
- (5) Agreement Structure Beginning Threshold
- (6) (1)
- (7) If the Before Rates Forecast volume (6) is greater than the Threshold volume (5), then the total pieces represent the volume on which Discount Exposure occurs
- (8) (2)
- (9) If the Before Rates Forecast volume (6) is greater than the Threshold volume (5), then the Discount Exposure represents the discount X the volume per discount tier.
- (10) Sum of Exposure in first tier to third tier



## Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement

Appendix A, page 8

	(7)	(8)
	FY2006	FY2007

FY2008

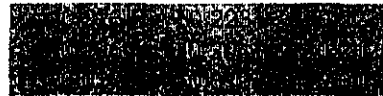
### Standard Mail Letters

- (1) Standard letters Revenue per Piece
- (2) Standard letters Cost per Piece
- (3) Standard letters Contribution per Piece



### Standard Mail Non-letters

- (4) Standard Non-letter Revenue per Piece
- (5) Standard Non-letter Cost per Piece
- (6) Standard Non-letter Contribution per Piece



- (1) Average Revenue per Piece (Appendix A, pg. 3, (4))
- (2) Average Cost per Piece (Appendix A, pg. 4, (17))
- (3) (1) - (2)
- (4) Average Revenue per Piece (Appendix A, pg. 5, (4))
- (5) Average Cost per Piece (Appendix A, pg. 6, (17))
- (6) (4) - (5)
- (7) Year 1 \* Inflation cost adjustment factor Year 2 (Appendix A, pg. 1, (1))
- (8) Year 2 \* Inflation cost adjustment factor Year 3 (Appendix A, pg. 1, (1))

# **Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5**

Negotiated Service Agreement

Appendix A, page 9

	FY2006	FY2007	FY2008	Total
(1) Contribution from new Standard letter mail				
(2) Contribution from Standard non-letter mail converted to Standard letter mail				
(3) <b>Total New Contribution</b>				
(4) <b>Total Discount Exposure</b>	\$ -	\$ -	\$ -	-
(5) <b>Total Incremental Discounts</b>	\$ 360,000	\$ 400,000	\$ 200,000	960,000
(6) <b>Total USPS Value</b>				

- (1) (Assumption (2), (Appendix A, pg. 1)) X (Volume Before Discount (Appendix A, pg. 2) - Volume After Discount (Appendix A, pg. 2))  
X (Contribution Standard letter mail (3), (Appendix A, pg. 8) - Contribution Standard non-letter mail (6), (Appendix A, pg. 8))
- (2) 1minus Assumption (2), (Appendix A, pg. 1) X (Volume After Discount (Appendix A, pg. 2) - Volume After Discount (Appendix A, pg. 2))  
X Contribution Standard letter mail (Appendix A, pg. 8)
- (3) Sum of (1) + (2)
- (4) Total Discount Exposure (10)(Appendix A, pg. 7)
- (5) Discount Earned (4) (Appendix A, pg. 7)
- (6) (3) - (4) - (5)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

5. Please refer to USPS-T-2, Appendix A, page 9. Line 5 (Total Incremental Discounts) refers to line 4 of page 7 (Discount Earned) – an amount that includes discounts on both incremental volume and before rates volume. Please confirm that line 5 (Total Incremental Discounts) should be set equal to line 4 of page 7 minus line 10 of page 7 (Total Exposure).

RESPONSE:

To clarify, line 5 on page 9 (Total Incremental Discount) is equal to line 4, page 7 (Discount Earned). Line 6 (Total USPS Value) on page 9 provides the calculation of line 3 (Total New Contribution) minus line 4 (Total Exposure) minus line 5 (Total Incremental Discount).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

2. Please refer to the Request, Attachment F, Section II.F. (page 4) (Bookspan NSA) which sets forth the Merger and Acquisition provisions of the Bookspan NSA. In relevant part, the Bookspan NSA, Section F states: "[i]f the merger or acquisition results in a material increase as described herein, the Standard Mail volume blocks will be adjusted to add the volume of Standard Mail sent by the acquired entity during the 12 months preceding the merger or acquisition." In light of this language, and the rest of the agreement: if a merger or acquisition results in a material increase as defined in Section F of the Bookspan NSA and volume blocks are adjusted to add the volume of Standard Mail sent by the acquired entity, will there be a corresponding adjustment to the volume commitment levels? If so, please quantify that adjustment. If not, please explain why not.

RESPONSE:

There is no adjustment level to the volume commitments in the event of a merger.

There are already clauses in the agreement that protect the Postal Service from the increase in volume due to mergers. These provision include a cap on the total amount of pieces that may be discounted, a 30-day termination clause, and restriction on the content of mailings eligible for the discount.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

4. In the response to POIR No. 1, question 1(a)(i) and (ii), witness Yorgey indicates that the results of the trend analysis provided in that response represent "initial forecast ranges." The response goes on to state that later efforts "refined the analysis using different volume assumptions to make alternative forecasts."

- a. Do the results provided in response to POIR No. 1 represent the Postal Service's best independent estimates of Bookspan's before rates volumes?
- b. If not, please provide the Postal Service's best independent estimates of Bookspan's before rates volumes, including supporting documents and electronic workpapers (e.g., Excel spreadsheets). Please include a presentation of the calculation of any adjustments to the inputs or outputs and explain the rationale for any such adjustments

RESPONSE:

As I indicated in my response to POIR No. 1, question 1.a., I developed "forecast ranges," but did not develop a specific point forecast. The best available point forecast, as described previously, are the forecasts provided by Bookspan in the current filing. Based on the ranges I developed, it is probable that the Bookspan estimate is the best available forecast based on the existing data.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T2-1.**

In Docket No. R2005-1, please refer to the Postal Service response filed on June 30, 2005 to VP/USPS-T28-49 (showing FY-06 PRC costs) and to VP/USPS-T28-50 (showing FY-06 USPS costs), both redirected from witness Taufique, and their Excel attachment named Cost\_Interrogatory-USPS2\_checked.xls. The USPS costs in the response to VP/USPS-T28-50 appear to be a subset, including additional detail, of the costs shown by witness Yorgey in her response to POIR No. 1, Question 2, Attachment 2, in the instant docket.

This interrogatory has six attachments. Each is based on either 'Sheet 3' or 'Sheet 5' of the above-referenced Excel attachment, with some modifications. The modifications are: (1) Below each single-layer or double-layer (cost) box, right justified, in small font, the rate associated with that box has been inserted in cents per piece. According to the heading on the attachment, it is either the Docket No. R2001-1 rate or the proposed Docket No. R2005-1 rate. (2) In the bottom layer of each triple-layer box, the actual rate difference (often referred to as a discount) appears. These are calculated directly from the associated small-font rates. (3) In the middle layer of each triple-layer box, the percentage passthrough implied by the rate difference (bottom layer, same box) and the cost difference (top layer, same box) is calculated. It is expressed as a percent. (4) In the single-layer and double-layer cost boxes: Attachments No. 1 and No. 3 contain USPS costs as provided in response to above-referenced VP/USPS-T28-50; Attachments No. 2 and No. 4 contain PRC costs as provided in response to above-referenced VP/USPS-T28-49; and Attachments No. 5 and No. 6 contain what are hereinafter called Yorgey costs, as explained further below. (5) Three-layer boxes have been added to show each implicit passthrough of the letter/flat cost differences.

In Attachments No. 5 and No. 6, containing Yorgey costs, the workshare-related costs in the bottom layer of all two-layer boxes are set equal to the total costs in the top layer of the same boxes, because witness Yorgey appears to use only total costs. Also, beyond the USPS costs (for mail processing and delivery) provided in response to above-referenced VP/USPS-T28-50, the Yorgey costs contain an additional component. That component is equal, using applicable lines, to the total costs in column 13 of Attachment 2 to Question 2 of POIR No. 1 minus delivery costs (column 9) minus rural carrier costs (column 8) minus city carrier costs (columns 3, 4, 5, and 6) (which are zero in rows where these costs appear in column 9 instead) minus mail processing costs (column 1).

- a. Please confirm that the Yorgey costs (in Attachments No. 5 and No. 6) have been developed correctly. If you do not believe they are correct and are suitable for use in estimating the changes in Postal Service costs when pieces change from being flats to being letters, please provide a set of Yorgey costs that you support, explaining their meaning and indicating their source.
- b. Please compare the Yorgey costs in Attachments No. 5 and No. 6, after any modifications you make in response to part a of this question, with the USPS

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

- costs in Attachments No. 1 and No. 3. Please explain in detail any extent to which you believe the Yorgey costs are not suitable for rate design purposes but are suitable for estimating the cost effects on the Postal Service when pieces (including Bookspan pieces) change from being flats to being letters.
- c. Please refer to the PRC costs shown in Attachments No. 2 and No. 4.
    - (i) Please explain the extent to which you agree that (1) these are USPS estimates of FY-06 PRC costs, based on methods and spreadsheets from Docket No. R2001-1, and (2) by the end of Docket No. R2005-1, the Commission may make available a new set of PRC costs.
    - (ii) In view of any extent to which you know anything about any cost principles behind the currently available PRC costs, please explain any reasons you have for believing that the USPS costs are better suited to estimating the cost effects on the Postal Service of any flats that convert to letters as a result of the Bookspan NSA.
  - d. Please explain the logic, fairness and consistency of using Docket No. R2005-1 Yorgey costs to estimate the effects of the Bookspan NSA on the Postal Service but not using either the Yorgey costs or the USPS costs or the PRC costs, of Docket No. R2005-1, to design the proposed rates in Docket No. R2005-1, but rather leaving the rates based costs of Docket No. R2001-1, with an across-the board increase applied.
  - e. If the Commission in Docket No. R2005-1, using its own version of the costs shown in Attachments No. 2 and No. 4 were to develop and recommend new rates for Regular Standard and ECR Standard, would it be your position that the Postal Service should file updates to all its revenue and cost estimates in the instant docket? Please explain.
  - f. Please refer to the three-layer box between 3/5-digit flats and 3/5-digit letters in Attachment No. 5, or a corresponding new version of it that you develop and support. It shows a cost difference of 4.486 cents and a rate difference of 4.0 cents. Please explain whether you agree that for a piece moving through this box from being a flat to being a letter, the contribution to institutional costs of the Postal Service would increase in the amount of 0.486 cents. If you disagree, please explain why.
  - g. If you agree with the procedure outlined in part f of this question, please apply the product mix of Bookspan before and after the NSA to the Yorgey costs in Attachment No. 5, or to a similar attachment with costs and rates that you support, and calculate an average increase in contribution for the pieces estimated to switch from letters to flats in the Postal Service proposal.

**RESPONSE:**

- a. I confirm that these costs have been developed correctly as national average unit costs.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

- b. I am not designing rates based on these costs. I am using them as proxies in my model to demonstrate the financial impact of this NSA.
- c.
  - i. This is consistent with my understanding.
  - ii. I am not an expert in the details of these postal costing theories. In developing the analysis to support the Bookspan NSA, I relied on the costs that were the most current at the time. However, it is my understanding that, in most cases, the Postal Service develops and presents rates designed based on costs as it develops them. I understand that there have been exceptions to this approach, usually when the Postal Service was attempting to minimize the potential areas of contention and the choice of the cost methodology would not have changed the conclusions of the analysis in a major way.
- d. See my response to part b above. It is my understanding that there is more information on the subject of rate development and the choice of costs in Docket No. R2005-1 in the testimonies of witnesses Potter and Robinson.
- e. To the extent that different rates come into effect from those I have assumed, it would be appropriate to revise my financial analysis, if the timing in this case allowed and if the differences were significant enough.
- f. I would agree for the average piece.
- h. g. I did not make this calculation; however, the financial model that I filed with my testimony is designed to calculate various assumptions, including this one, using the electronic spreadsheet.

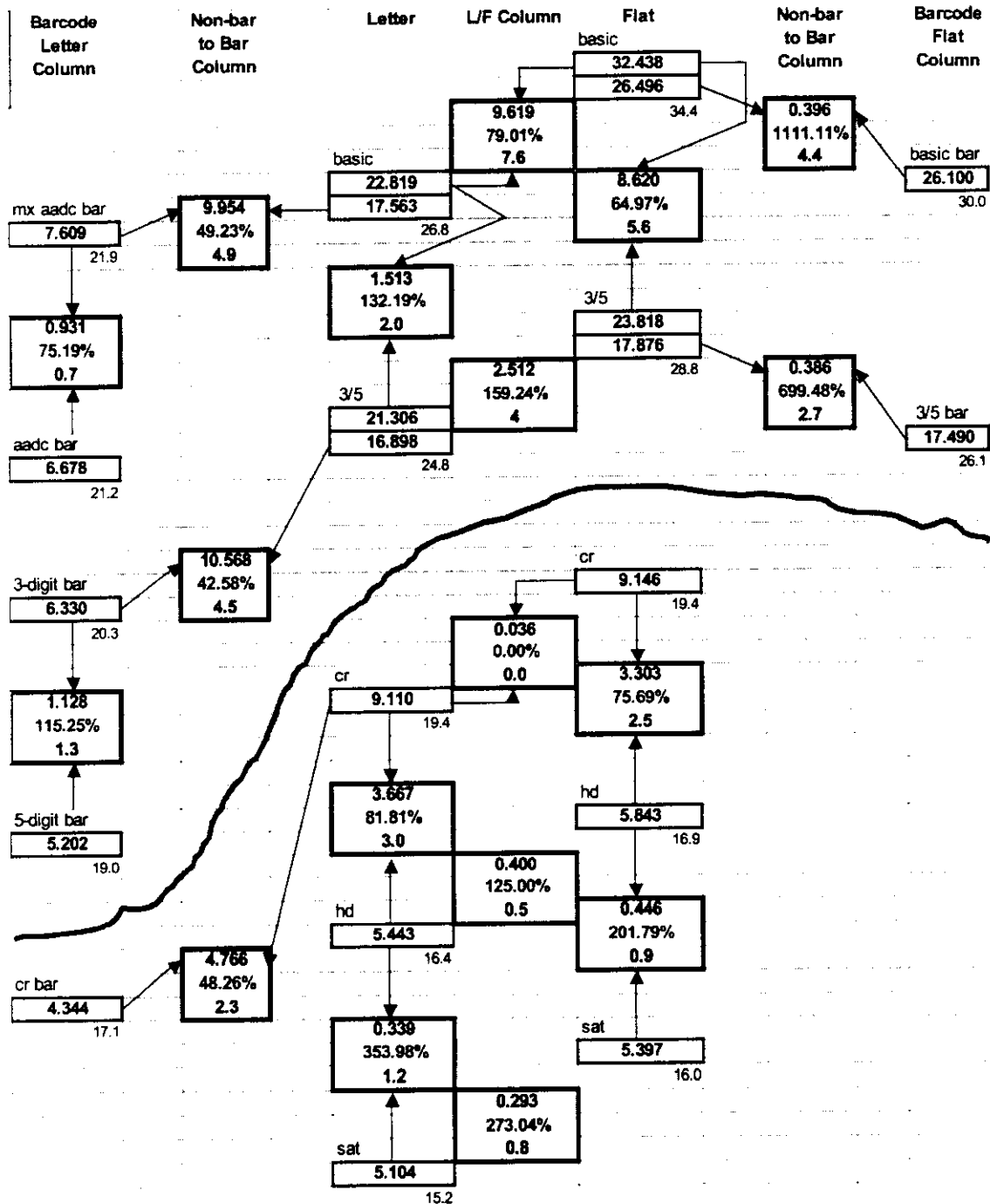


6

UP/USPS-T2-1  
Attachment No. 1  
TO QUESTION

# Commercial Standard, USPS Costs, Docket No. R2005-1

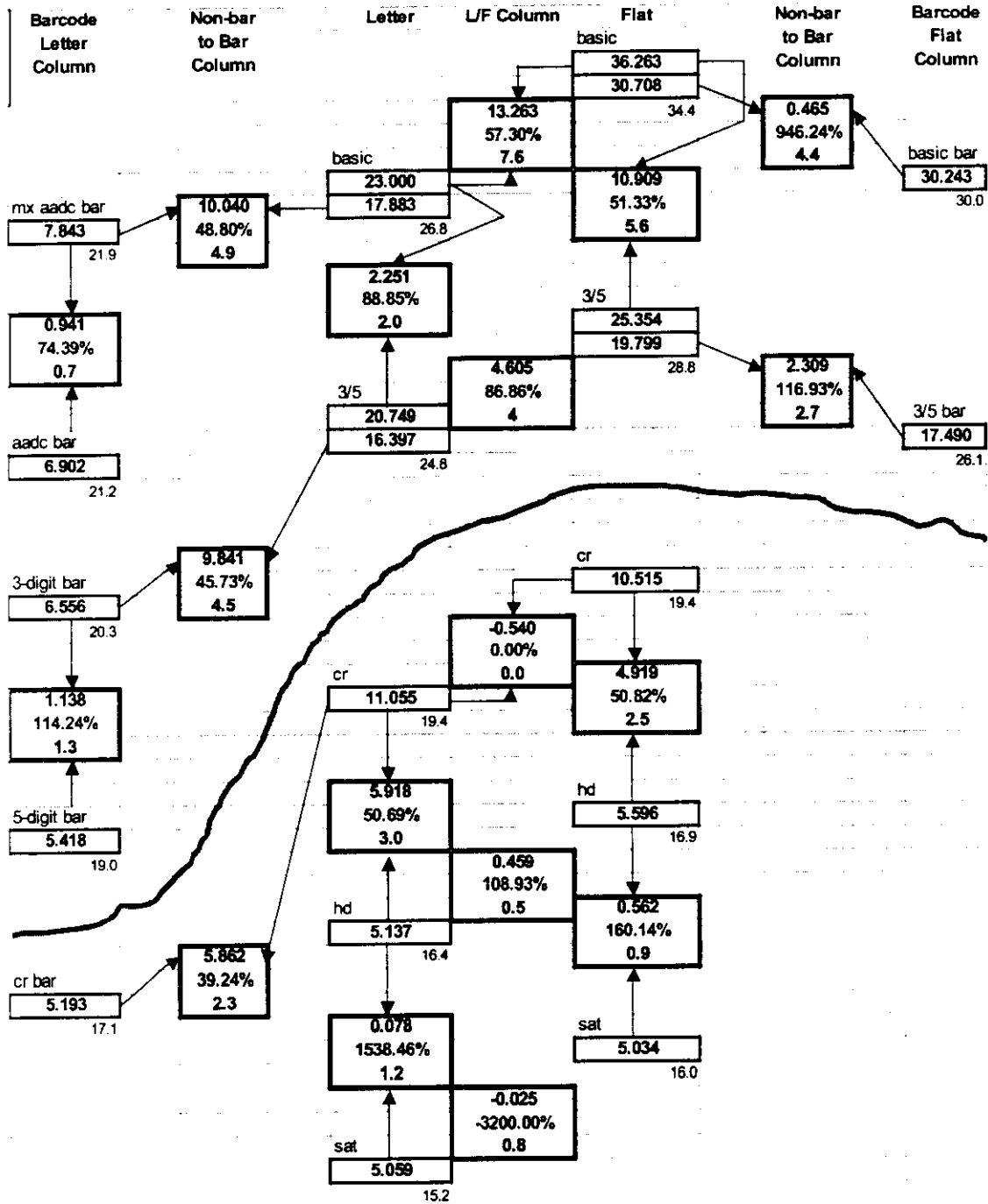
Showing Docket No. R2001-1 Rates and Rate Differences and Passthroughs



## Attachment No. 2

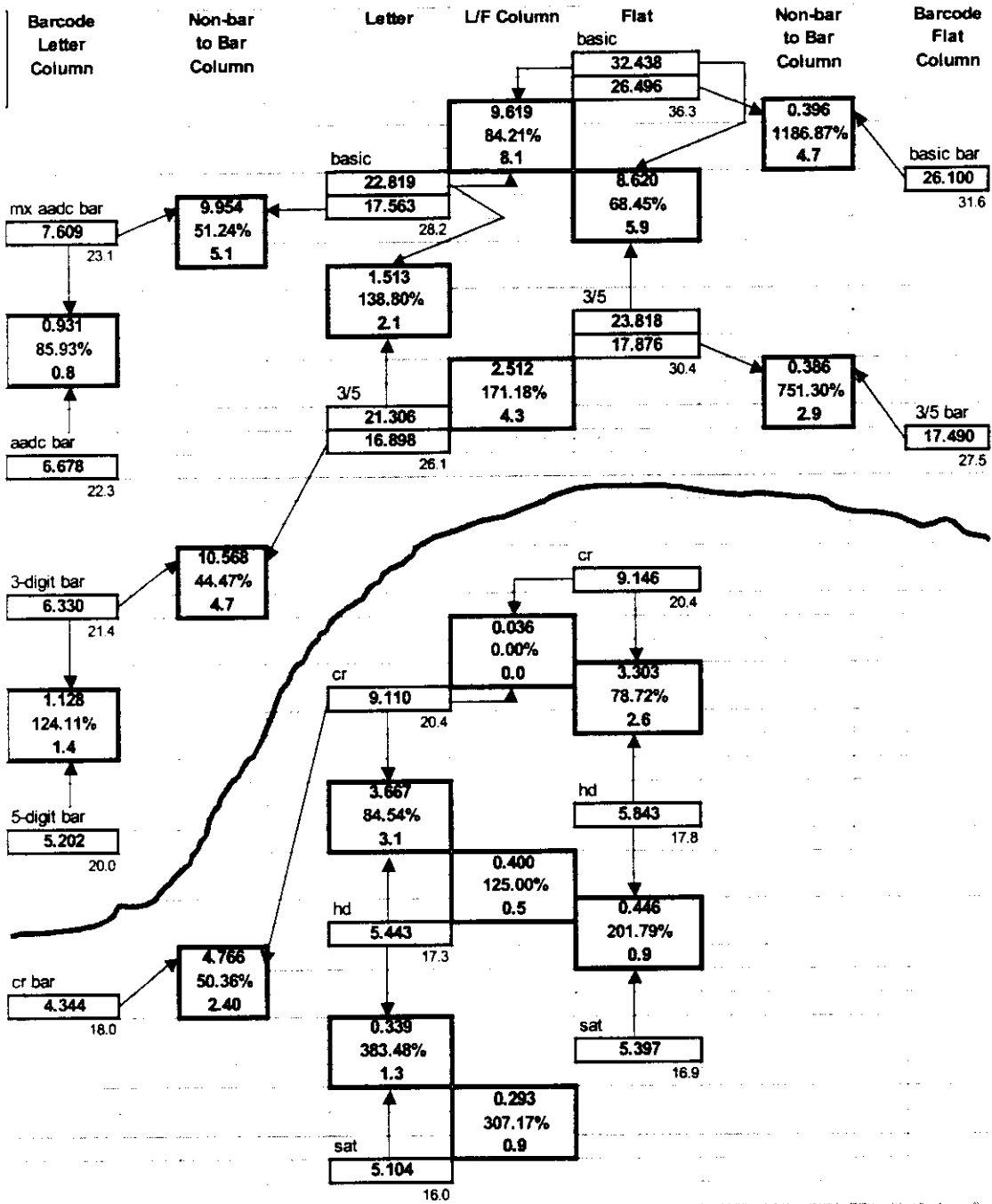
**Commercial Standard, PRC Costs, Docket No. R2005-1**

Showing Docket No. R2001-1 Rates and Rate Differences and Passthroughs



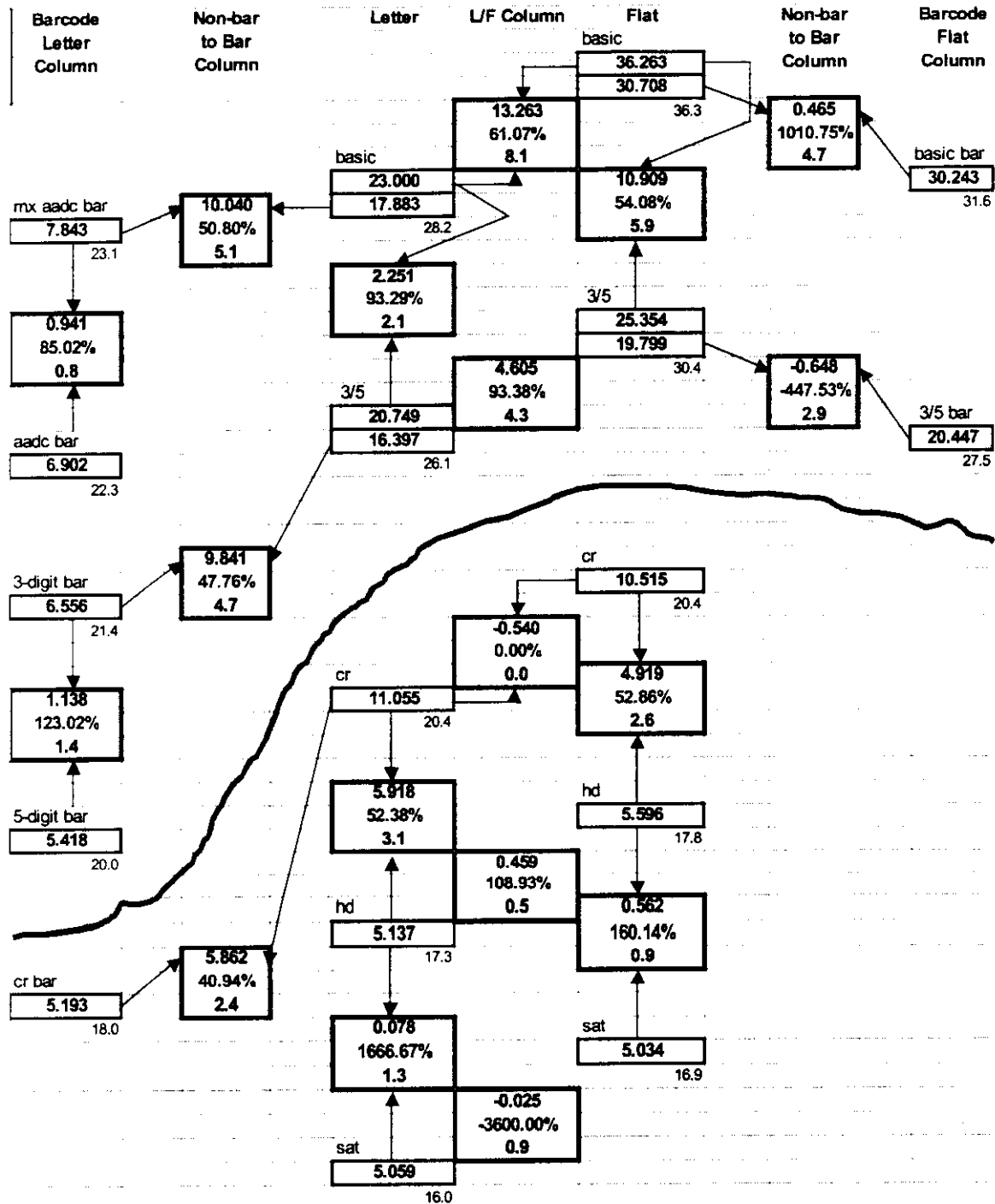
# Commercial Standard, USPS Costs, Docket No. R2005-1

Showing Proposed Docket No. R2005-1 Rates and Rate Differences and Passthroughs



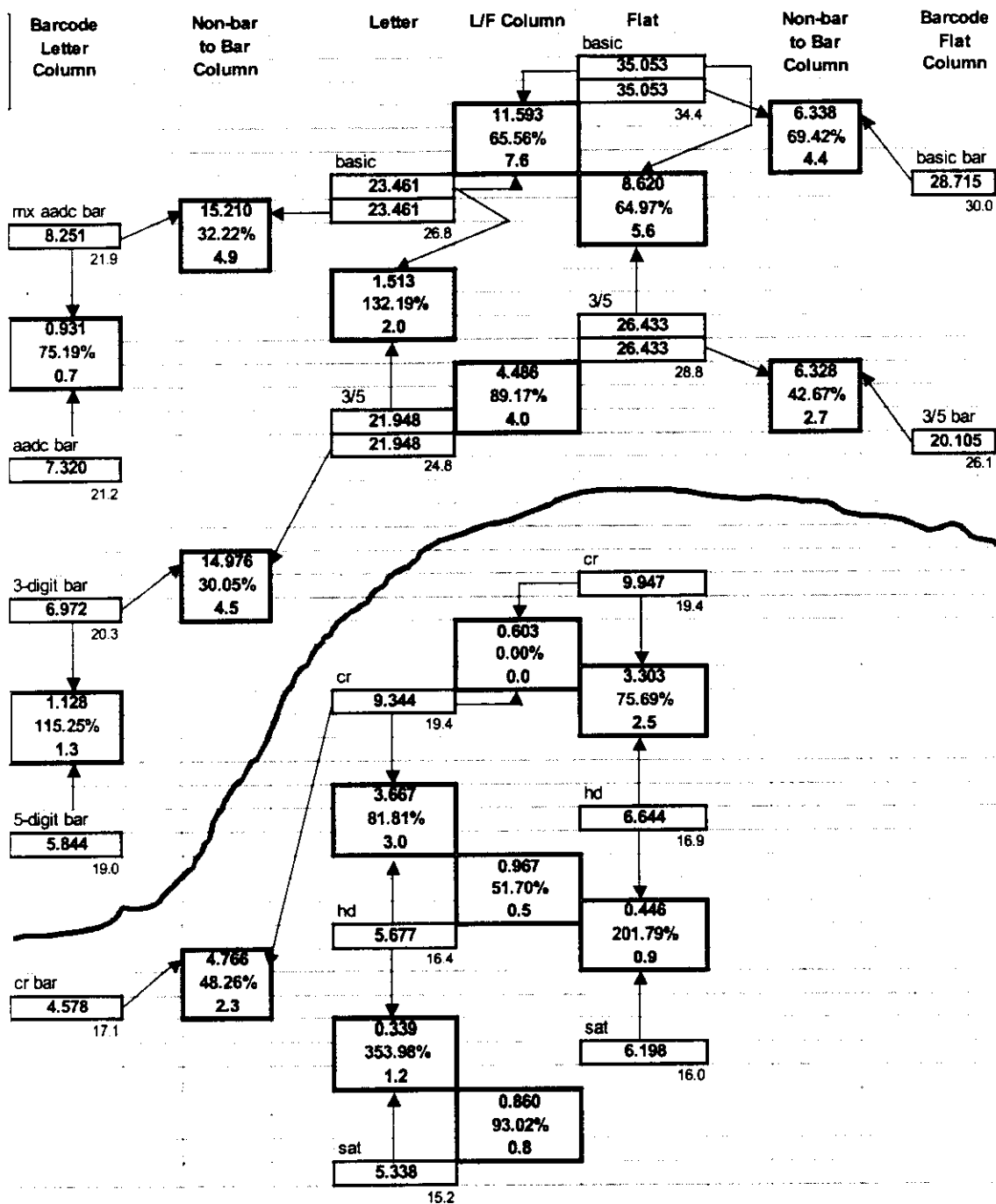
# Commercial Standard, PRC Costs, Docket No. R2005-1

Showing Proposed Docket No. R2005-1 Rates and Rate Differences and Passthroughs



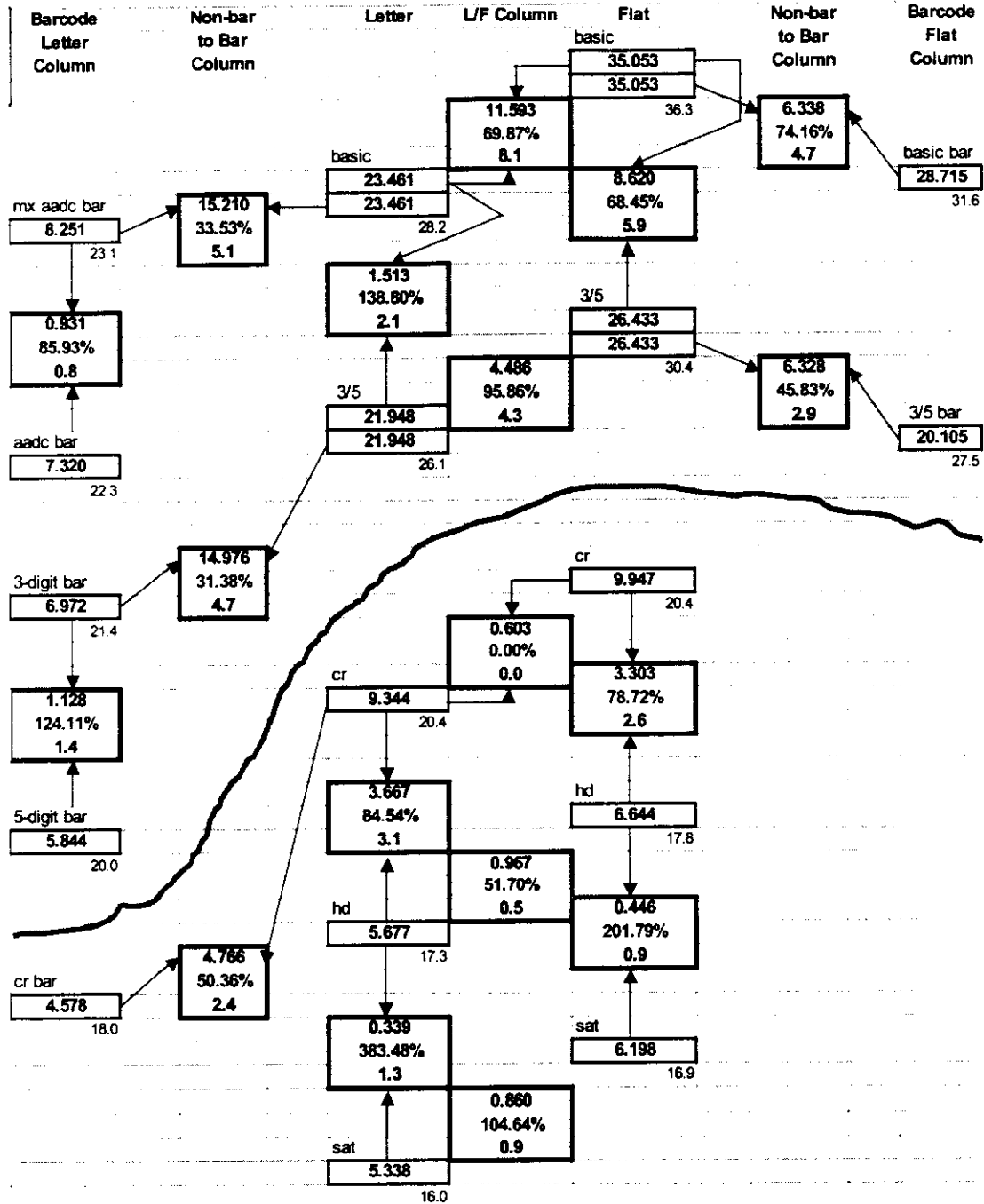
# Commercial Standard, Yorgey Costs, Dockets No. R2005-1 & MC2005-3

Showing Docket No. R2001-1 Rates and Rate Differences and Passthroughs



# Commercial Standard, Yorgey Costs, Dockets No. R2005-1 & MC2005-3

Showing Proposed Docket No. R2005-1 Rates and Rate Differences and Passthroughs



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T2-2.**

- a. Please refer to your Appendix A, page 6, and confirm that if Bookspan were to mail the same volume of Standard Mail Regular non-letters in FY 2006 as it did in FY 2004, and if that volume were to be distributed over the same rate categories in FY 2006 as it was in FY 2004, using USPS Test Year costs from Docket No. R2005-1, the total cost before rates for such Standard Mail non-letters would amount to \$25,668,813, computed as follows:

	TY 2006 Total Unit Costs (Dollars)	FY 2004 Mail Volume (Pieces)	Total Cost
Nonauto Basic	0.351	29,186	\$ 10,244
Nonauto 3/5 Digit	0.260	1,367,428	355,531
Auto Basic	0.347	167,112	57,988
Auto 3/5 Digit	0.260	<u>97,096,345</u>	<u>25,245,050</u>
<b>TOTAL</b>		<b>98,660,071</b>	<b>\$25,668,813</b>

If you do not confirm, please provide the correct total cost and show how it was derived.

- b. Please refer to your Appendix A, page 5, and confirm that the same volume of Standard Mail non-letters as shown above, when mailed at current rates, generated revenue of \$23,648,640 for the Postal Service in FY 2004. If you do not confirm, please provide the correct figure.
- c. Please confirm that if Bookspan were to mail the same volume of Standard Mail non-letters as shown above in FY 2006, with no rate increase the Postal Service could expect to suffer a total out-of-pocket loss of \$2,020,173 from such mail, representing the difference between the revenues in preceding part b and the costs in preceding part a, and a unit loss of \$0.0205. Please explain fully any non-confirmation.

**RESPONSE:**

- a. The calculations appear to be correct. Please see my response to VP/USPS-T2-1.

The average costs were used as proxies for Bookspan's costs in the absence of a Bookspan-specific costs. Please see my response to POIR No. 1, question 4(b)(ii) and attachment 5.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

124

b.-c. Although the calculations appears to be correct, the national averages do not take account of Bookspan's specific dropship profile and difference in its average weights compared to the national average. As I noted in response to VP/USPS-T2-1b, I do not use these averages to set rates.



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

125

**VP/USPS-T2-3.**

- a. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 6 (revised), and confirm that if Bookspan were to mail the same volume of Standard Mail Regular non-letters in FY 2006 as it did in FY 2004, and if that volume were to be distributed over the same rate categories in FY 2006 as it was in FY 2004, using USPS Test Year costs from Docket No. R2005-1, the total cost before rates for such Standard Mail non-letters would amount to \$25,772,746 computed as follows:

	TY 2006 Total Unit Costs (Dollars)	FY 2004 Mail Volume (Pieces)	Total Cost
Nonauto Basic	0.351	29,186	\$ 10,244
Nonauto 3/5 Digit	0.265	1,367,428	362,368
Auto Basic	0.347	167,112	57,988
Auto 3/5 Digit	0.261	<u>97,096,345</u>	<u>25,342,146</u>
TOTAL		98,660,071	\$25,772,746

If you do not confirm, please provide the correct total cost and show how it was derived.

- b. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 5 (revised), and confirm that the same volume of Standard Mail non-letters as shown above, when mailed at projected rates, would generate total revenue of \$24,925,667 for the Postal Service in FY2006. If you do not confirm, please provide the correct figure.
- c. Please confirm that if Bookspan were to mail the same volume of Standard Mail non-letters as shown above in FY 2006, then even after a projected rate increase of 5.4 percent, the Postal Service could expect to suffer a total out-of-pocket loss of \$847,079 on such mail, representing the difference between the revenues in preceding part b and the costs in preceding part a, and a unit loss of \$0.0086. Please explain fully any non-confirmation.

**RESPONSE:**

- a. – c. Please see my response to VP/USPS-T2-2.a. – c.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T2-4.**

- a. Please refer to your Appendix A, page 6, and confirm that if Bookspan were to mail the same volume of Standard Mail ECR Basic non-letters in FY 2006 as it did in FY 2004, and if all of that volume were to be at the Basic non-letter rate category in FY 2006, the same as it was in FY 2004, then using USPS Test Year costs from Docket No. R2005-1, the total cost for such ECR non-letters would amount to \$6,440,399 computed as follows:

	TY 2006 Total Unit Cost (Dollars)	FY 2004 Mail Volume (Pieces)	Total Cost
Basic Non-letter	0.098	65,718,356	\$6,440,399

If you do not confirm, please provide the correct total and show how it was derived.

- b. Please refer to your Appendix A, page 5, and confirm that the same volume of ECR non-letters as shown above, when mailed at current rates, generated revenue of \$11,116,946 for the Postal Service in FY 2004. If you do not confirm, please provide the correct figure.
- c. Please confirm that if Bookspan were to mail the same volume of ECR non-letters as shown above in FY 2006, even with no rate increase the Postal Service could expect to realize a net gain in contribution of \$4,676,547, representing the difference between the revenues in preceding part b and the costs in preceding part a, and a unit contribution of \$0.0712. Please explain fully any non-confirmation.

**RESPONSE:**

- a. – c. Please see my response to VP/USPS-T2-2.a. – c.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T2-5.**

- a. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 6 (revised), and confirm that if Bookspan were to mail the same volume of Standard Mail ECR Basic non-letters in FY 2006 as it did in FY 2004, and if all of that volume were to be at the Basic non-letter rate category in FY 2006, the same as it was in FY 2004, using USPS Test Year costs from Docket No. R2005-1, the total cost for such ECR non-letters would amount to \$6,440,399 computed as follows:

	TY 2006 Total Unit Costs (Dollars)	FY 2004 Mail Volume (Pieces)	Total Cost
Basic Non-letter	0.098	65,718,356	\$6,440,399

If you do not confirm, please provide the correct total and show how it was derived.

- b. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 5 (revised), and confirm that the same volume of ECR non-letters as shown above, when mailed at projected rates, would generate total revenue of \$11,717,261 for the Postal Service in FY 2006, and a unit revenue of \$0.178. If you do not confirm, please provide the correct figures.
- c. Please confirm that if Bookspan were to mail the same volume of ECR non-letters as shown above in FY 2006, even with no rate increase the Postal Service could expect to realize a gain of \$5,276,862 representing the difference between the revenues in preceding part b and the costs in preceding part a. Please explain fully any non-confirmation.
- d. Please confirm that the unit contribution from a Bookspan ECR non-letter at rates proposed in Docket No. R2005-1 is equal to \$0.080, derived by subtracting a unit cost of \$0.098 from a unit revenue of \$0.178. If you do not confirm, please provide the correct figures.

**RESPONSE:**

- a. – c. Please see my response to VP/USPS-T2-2.a. – c.
- d. The calculations appear to be correct, but, again, these are averages rather than Bookspan-specific costs.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T2-6.**

- a. Please compare your response to VP/USPS-T2-2(c) with your response to VP/USPS-T2-4(c) and explain why the Postal Service has been incurring a loss of \$0.0205 per piece and a total annual loss of \$2,020,173 on Bookspan's Standard Mail Regular non-letters, while making \$0.0712 per piece and a total annual contribution to overhead of \$4,676,547 on Bookspan's ECR non-letters, both at current rates. If you do not confirm the figures shown here and in the referenced interrogatories, please base your comparison and explanation here on the figures that you provided in your response to the above-referenced interrogatories.
- b. Please compare your response to VP/USPS-T2-3(c) with your response to VP/USPS-T2-5(c) and explain why -- after a rate increase of 5.4 percent -- the Postal Service would incur a loss of \$0.0086 per piece and a total loss of \$847,080 on Bookspan's Standard Mail Regular non-letters, while making a \$0.080 contribution per piece and a total contribution of \$5,276,862 on ECR non-letters, both computed at rates proposed in Docket No. R2005-1. If you do not confirm the figures shown here and in the referenced interrogatories, please base your comparison and explanation here on the figures that you provided in your response to the above-referenced interrogatories.

**RESPONSE:**

- a. Please see my response to VP/USPS-T2-2.a.
- b. The calculations appear to be correct. Please see my response to VP/USPS-T2-2.c.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.**

**VP/USPS-T2-7.**

- a. Please refer to your Appendix A, page 2, and confirm that the forecasted change in total volume from before rates to after rates is as shown here.

	FY 2006	FY 2007	FY 2008
After Rates	225,000,000	215,000,000	217,000,000
Before Rates	<u>215,000,000</u>	<u>204,000,000</u>	<u>205,000,000</u>
Change in volume	10,000,000	11,000,000	12,000,000

If you do not confirm, please provide the correct figure for the annual change in volume.

- b. Please refer to your Appendix A, page 2, and confirm that the forecasted increase in letter volume from before rates to after rates is as shown here.

	FY 2006	FY 2007	FY 2008
Net increase in volume (all ltrs)	10,000,000	11,000,000	12,000,000
Flats converted to letters	<u>17,000,000</u>	<u>19,000,000</u>	<u>20,000,000</u>
Total increase in letter volume	27,000,000	30,000,000	32,000,000

If you do not confirm, please provide the correct figure for the annual change in forecasted volume for each of the years shown.

- c. Please refer to your response to VP/USPS-T2-5(d) and confirm that if all Bookspan flats that converted to letters, as shown in the second row of preceding part b, were ECR Basic flats, then the Postal Service would forego a unit contribution of \$0.080 per piece and suffer the following total reduction in contribution, before taking into account either the increase in contribution from letters or any discount that might be earned.

	FY 2006	FY 2007	FY 2008
Reduction in contribution from ECR flats converting to letters	\$1,360,000	\$1,520,000	\$1,600,000

If you do not confirm, then for each year shown please provide the correct figure for the reduction in contribution on the assumption that all converting flats are ECR flats.

- d. Please refer to your response to POIR No. 1, Question 4.b.ii, Attachment 5, showing Appendix A, page 9 (revised), row 2, and for the years shown in that

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

attachment provide the contribution on the assumption that all conversion is from ECR non-letter mail to ECR letter mail.

- e. Since Bookspan's volume of FY 2004 high contribution ECR non-letters was slightly over 65 million, and the projected volume of flats converting to letters is only 17 million to 20 million, what assurance, if any, does the Postal Service have that the flats which Bookspan converts to letters will be mostly Standard Mail Regular flats with a low or negative unit contribution, and not a disproportionate share of ECR flats, which have a high unit contribution?

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c. Please see my response to VP/USPS-T2-2.c.
- d. I did not make this calculation; however, the financial model that I filed with my testimony is designed to calculate various assumptions, including this one, using the electronic spreadsheet.
- e. Given that ECR flats tend to have a lower price already, they are the flats least likely to convert, all other things being equal.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T2-8.**

Please refer to your responses to VP/USPS-T2-2(c) and VP/USPS-T2-5(d), and consider the unit contribution that the Postal Service would derive from the entire volume of Bookspan's non-letter mail after a 5.4 percent rate increase; *i.e.*, the unit contribution on Bookspan's 98.7 million Standard Mail Regular non-letters, and Bookspan's 65.7 million Standard Mail ECR non-letters.

- a. From a statistical perspective, would you agree that the unit contribution from these 164.4 million non-letters is a bi-modal distribution, with a large volume showing little or no unit contribution, and a large volume showing a substantial positive unit contribution? If you do not agree, please explain how you would describe the distribution of the unit contribution from all of Bookspan's non-letter mail.
- b. Would you agree that averages based on a bi-modal distribution may not be representative of the underlying data? If you disagree, please explain how you view averages that are taken over a bi-modal distribution.

**RESPONSE:**

- a. I have not undertaken a comprehensive analysis of the costs of Bookspan's various types of Standard Mail Regular non-letters. Given that Bookspan enters mail in many different rate categories and employs a number of different piece designs, it is reasonable to assume that – were it possible to measure Bookspan's Standard Mail Regular non-letter costs with the precision implied in this interrogatory - their pieces would exhibit a range of cost characteristics, and therefore that the net contribution of Bookspan's Standard Mail Regular non-letters is distributed along some type of continuum. However, I would not go so far as to infer that the distribution is bi-modal in the manner suggested here. Please also refer to the response to POIR 1, question. Please see my response to POIR No. 1, question 4(b)(ii) and attachment 5.
- b. Averages – or means - are representative by definition. The degree to which such representations are adequate depends in large part on the use for which such an

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

average is employed. See also the response of witness Plunkett to VP/USPS-T2-9(e).



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T2-9.**

Please review your response to VP/USPS-T2-3 and respond to the following.

- a. Please, confirm that the projected negative difference between revenues and cost — *i.e.*, the out-of-pocket loss — for Bookspan's Standard Mail Regular non-letters is calculated using Postal Service volume variable costs. If you do not confirm, how would you characterize the costs which are used?
- b. Would not the Postal Service be financially better off if Bookspan did not mail any Standard Mail Regular non-letters? Please explain any negative response, and if you claim that considerations of the "multiplier effect" would offset the loss, please explain how high the multiplier effect would have to be in order to offset the out-of-pocket loss.
- c. In your view, are the unit costs shown in your Appendix A, page 6, for Standard Mail Regular non-letters representative of — or reasonable proxy for — the Postal Service's cost of handling Bookspan's Standard Mail Regular non-letters?
- d. If your response to preceding part c is anything other than an unqualified affirmative, please explain what you consider to be shortcomings in the estimated unit cost of Bookspan's Standard Mail Regular non-letters, and discuss what you would consider to be a better methodology, or proxy, for the estimated unit cost of Bookspan's Standard Mail Regular non-letters.

**RESPONSE:**

- a. Confirmed.
- b. No, the dropship profile for Bookspan is significantly different from the national average. This results in a slightly lower revenue per piece for Bookspan in comparison to the national average revenue unit. In contrast, the unit cost presented in the calculation does not represent the Bookspan's specific unit cost but rather the national average unit cost. My calculations were reasonable for the purpose of calculating the financial impact of this NSA, but are not intended to be used, and were not used in this case, to design rates.
- c.-d. Yes, they are a reasonable proxy. As I mentioned in my response to part b, these unit costs were used for a very limited purpose: to estimate the financial impact of expected migration of mail that is currently entered as flats to letters.

1 CHAIRMAN OMAS: Is there any additional  
2 written cross-examination for Witness Yorgey?

3 (No response.)

4 CHAIRMAN OMAS: This brings us to oral  
5 cross-examination. Two parties have requested oral  
6 cross, the Office of Consumer Advocate and Val-Pak  
7 Direct Marketing Systems and Val-Pak Dealers  
8 Association.

9 Ms. Dreifuss, would you like to begin?

10 MS. DREIFUSS: Yes. Thank you, Mr.  
11 Chairman.

12 CROSS-EXAMINATION

13 BY MS. DREIFUSS:

14 Q Good morning, Ms. Yorgey.

15 A Good morning.

16 MR. REITER: Could you give me just one  
17 second to finish this?

18 MS. DREIFUSS: Sure.

19 (Pause.)

20 BY MS. DREIFUSS:

21 Q I wonder if you could turn to your revised  
22 response, your most recent response to OCA  
23 Interrogatory No. 11 to you? It concerns  
24 international customized mail agreements.

25 MR. REITER: I'm sorry, Ms. Dreifuss. Could

1       you give me the citation again?

2                   MS. DREIFUSS:  Yes.  It's Interrogatory No.  
3       11 to Witness Yorgey.

4                   MR. REITER:  Thank you.

5                   MS. DREIFUSS:  Sure.

6                   BY MS. DREIFUSS:

7               Q       Ms. Yorgey, in your autobiographical sketch  
8       you included this statement.  "I was responsible for  
9       negotiation, development and implementation of ICM  
10      agreements."  Is that correct?

11              A       Yes, ma'am.

12              Q       And in fact OCA quoted your autobiographical  
13      sketch in the predicate to that question, but then as  
14      I look further down at your answer near the bottom of  
15      the first page of your response, and this is your  
16      response to (a) and (b).  You say, "I did not  
17      personally negotiate ICM agreements."

18                   I'm trying to understand how you could be  
19      responsible for negotiation of ICM agreements if you  
20      didn't personally negotiate them.

21              A       The process.  I was managing the process  
22      where the negotiation, the implementation, the  
23      development was occurring, and that process occurred  
24      through many functional groups that assisted in that  
25      process.

1           Q     So when you said I was responsible for  
2     negotiation, basically what you were saying there is  
3     it was a shared responsibility with others?

4           A     Correct.

5           Q     If you could turn to page 2 of your answer  
6     to that interrogatory, and I guess we're still on your  
7     response to (a) and (b). This is page 2 of it.

8                     You explain there that ICM agreements are  
9     generally available to all international customers who  
10    will tender at least one million pounds of  
11    international letter post mail, excluding global  
12    priority mail, or pay at least -- I guess there's a  
13    typo there. It says "pay out", but you meant to say  
14    pay at least \$2 million in international letter  
15    postage to the Postal Service on an annualized basis.

16                    What is the reason for the Postal Service  
17    establishing a minimum of one million pounds or \$2  
18    million?

19           A     That criteria was there when I stepped into  
20    the program. The reason behind that, I wouldn't know  
21    specifically the answer to that.

22           Q     Actually now that you mention your time in  
23    the program, when did you start working in the  
24    international mail area?

25           A     In 1996. 1996.

1           Q     1996. Do you still work for the  
2 International Mail Group?

3           A     No. I moved over to Pricing Strategy in  
4 2003.

5           Q     Okay. So the minimum requirement of one  
6 million pounds or \$2 million was established prior to  
7 your becoming part of the International Mail Group?

8           A     That is correct.

9           Q     Do you know the reason for it, for those  
10 minimums?

11           MR. REITER: I believe you've already got an  
12 answer to that.

13           MS. DREIFUSS: I think she said it was done  
14 before she began, but I don't think she said whether  
15 she knew why it was done.

16           BY MS. DREIFUSS:

17           Q     Well, let me ask you. Do you know why those  
18 minimums were put in place? Has anyone ever explained  
19 that to you?

20           A     I believe they were associated with  
21 requirements that the Judge had made when we first  
22 started with international customized mail agreements.

23           Q     Who was the Judge that you're referring to?

24           MR. REITER: Mr. Chairman, I'm really  
25 starting to wonder the relevance of who the Judge was

1 in a case that really has very little to do with this.

2 I understand that Ms. Dreifuss has some  
3 interest in Ms. Yorgey's background, and to a certain  
4 degree that's appropriate, but I think we've gone way  
5 beyond anything that could possibly be useful to the  
6 Commission here.

7 CHAIRMAN OMAS: Proceed, Ms. Dreifuss.

8 MS. DREIFUSS: Thank you, Mr. Chairman.

9 BY MS. DREIFUSS:

10 Q I'm not familiar with the Judge that you  
11 mentioned a moment ago.

12 A I wouldn't know the name or the Court that  
13 they were in either.

14 Q You were talking about a Court opinion that  
15 established these minimums?

16 A Yes, ma'am.

17 Q I have to confess I'm not familiar with that  
18 opinion either.

19 In your answer to Part (d) of OCA's  
20 interrogatory you state I believe that in 2003 it was  
21 determined to add a provision to ICM agreements to  
22 provide for interim rate increases for products that  
23 had more than a five percent increase in cost.

24 Also, the Postal Service had discontinued  
25 discounted rates for specific products based on weight

1 groups and finally held the term of all ICM agreements  
2 would have a term of no longer than one year.

3 Now, that change was made in 2003. Were you  
4 still part of the International Mail Group when that  
5 change was made?

6 A No. At that time I was under Pricing  
7 Strategy.

8 Q I think it's possible that those changes  
9 that were brought about in 2003 were in development  
10 prior to 2003. Do you know if that's true?

11 A No, I do not know.

12 Q Do you know the reason that the change was  
13 made in 2003 that all ICM agreements would have a term  
14 of no longer than one year?

15 A No.

16 Q Could you tell me how many years the ICM  
17 agreements could last prior to that change in 2003?

18 A My recollection is we only had agreements  
19 that went three years.

20 Q Do you think that the reason that the term  
21 was changed from three years to one year might be  
22 because it's very difficult to make projections three  
23 years out, but easier to make them one year out?

24 A That could possibly be an answer.

25 Q Thank you. This morning OCA filed a follow-

1 up interrogatory to this question that we're  
2 discussing, and it was done as a written follow-up  
3 because I believe for the most part the things that  
4 we're asking you probably would need a document  
5 search, but I thought I would try asking you.

6 I don't want to take up a lot of time this  
7 morning on something that might be fruitless. I'll  
8 ask you just a few questions that you might know the  
9 answers to on the spot. If not, I'll just move on to  
10 something else.

11 Do you know whether -- let me just say one  
12 more thing. You cited an audit report prepared by the  
13 Inspector General completed and I guess released in  
14 fiscal year 2003, didn't you?

15 A Yes. Actually, it was released this August.

16 Q That's right. I'm sorry. Right. It was  
17 for fiscal year 2003, but released in August 2005. Is  
18 that right?

19 A Correct.

20 Q Do you know during your tenure with the  
21 International Mail Group whether the Inspector General  
22 did any other audit reports for international  
23 customized mail agreements?

24 A I'm not aware of any.

25 Q Are you familiar with the Commission's



1 findings in its international mail reports for the  
2 period 1999 through 2004 concerning the profitability  
3 or lack of profitability of international customized  
4 mail agreements? Have you read any of those reports?

5 A I'm sorry. What was the year again?

6 Q If you look at Part (g) of OCA's follow-up  
7 interrogatory you see we list reports for Docket Nos.  
8 IN2000-1 going through IN2005-1, and those cover the  
9 years 1999 through 2004.

10 Now, I understand you left the International  
11 Mail Group you established just a moment ago in 2003,  
12 so let me focus on the years that you were there.  
13 From 1999 to 2002, are you familiar with the Postal  
14 Rate Commission's international report findings  
15 concerning the profitability or lack of profitability  
16 of international customized mail agreements?

17 A No, I am not.

18 MS. DREIFUSS: Okay. Thank you.

19 Mr. Chairman, I have a cross-examination  
20 exhibit that I'd like to give to Ms. Yorgey and her  
21 attorney. It's a very simple one. I'll give her a  
22 minute or two to look it over.

23 I think she should be able to answer  
24 questions based upon it. If not, I could ask the  
25 questions orally in any event. I think this would

1 actually be an aid to her being able to follow what I  
2 was going to ask her.

3 I've also got copies for of course the  
4 Commissioners and others that I've got right here on  
5 this chair.

6 BY MS. DREIFUSS:

7 Q Before I ask you about -- actually, let me  
8 give you another minute or two to look it over. Do  
9 you need any more time just to see what we've done  
10 there?

11 MR. REITER: Mr. Chairman, since this was  
12 not provided to us in advance, as is generally the  
13 practice, it would be helpful if Ms. Dreifuss could  
14 walk us through where these numbers came from and what  
15 they did to create the chart.

16 CHAIRMAN OMAS: Let me ask that you do that  
17 please. Thank you.

18 MS. DREIFUSS: I think that's a good  
19 suggestion, and I'm happy to do it.

20 BY MS. DREIFUSS:

21 Q We are now going to talk about a cross-  
22 examination exhibit that OCA prepared, and I've  
23 labeled it OCA-XE Exhibit T-2, No. 1.

24 Over the course of the proceeding we have  
25 gotten several different volume estimates from

1 Bookspan, but I'm only looking at three of them. You  
2 can see that in the column that's called Volume  
3 Estimates, but let me go from left to right just to  
4 make it a little more organized as I describe this.

5 In the most left-hand column we've got the  
6 assumptions that are made concerning the price that  
7 Bookspan would have to pay. As I understand it, these  
8 are average prices. They reflect the presort profile  
9 of Bookspan. I call them prices, but they're probably  
10 more precisely described as revenue per piece.

11 You can see I've got some letters -- (a),  
12 (b), (c) and (d) -- in brackets alongside several  
13 figures in this exhibit, and down at the bottom I've  
14 given the sources for the figures that I present here.

15 We went past the Price column. Now we're  
16 talking about the change in price. That's a simple  
17 subtraction. Line 1 is subtracted from Line 2 to get  
18 the first change in price of minus .4 cents. Line 2  
19 is subtracted from Line 3 to get the second change in  
20 price listed of minus 1.6 cents, and then I calculated  
21 the percent change in price with respect to the  
22 initial price before subtraction.

23 Just to the right of that there's a volume  
24 estimate that's associated with each of these prices,  
25 and those have been provided by Witness Epp either in

1 his testimony or in response to a presiding office  
2 information request. Those are the volumes that go  
3 along with the prices in the column on the left. I've  
4 done simple subtraction to get the change in volume,  
5 and I then calculated the percentage change in volume.

6 Do you have any questions, Witness Yorgey,  
7 about what I've done here?

8 A A little bit. Can I --

9 Q Sure.

10 A Can I take the time to look up these  
11 references?

12 Q Absolutely. I think that would be  
13 appropriate.

14 A And if I may get a copy of the reference for  
15 (a)?

16 Q The Plunkett response to No. 16? Sure.

17 A I don't have that with me.

18 (Pause.)

19 Q As you go through this, Ms. Yorgey, if you  
20 have any questions for me about what I'm citing or how  
21 I arrived at those figures please feel free to ask me.

22 MR. REITER: Mr. Chairman, if I might? I  
23 have a question.

24 Ms. Dreifuss cites Witness Plunkett's  
25 response to OCA Question 16 for the figure 17.8 cents.

1 I don't see that in his answer, however.

2 MS. DREIFUSS: Yes. If you look at the  
3 attachment to the answer -- the attachment is  
4 Attachment is OCA-1 -- page 3, and if you look at the  
5 top of that page 3 you'll see that we are making some  
6 calculations for test year after rates 2006.

7 At the bottom of the set of calculations we  
8 arrive at an average revenue letter size piece of 17.8  
9 cents.

10 MR. REITER: This was the attachment to your  
11 question?

12 MS. DREIFUSS: It was an attachment to our  
13 question, and if we look at Witness Plunkett's answer  
14 he says that --

15 MR. REITER: Which part? I'm sorry.

16 MS. DREIFUSS: Which part of his answer?

17 MR. REITER: Yes.

18 MS. DREIFUSS: If you look at his answer to  
19 (c) he confirmed that one could calculate Bookspan's  
20 price elasticity in this way. I assume that if he  
21 thought we had gotten the revenue per piece wrong then  
22 he wouldn't have answered (c) in that way.

23 When he takes the stand if he thinks we've  
24 gotten the revenue per piece wrong I guess he could  
25 say so, but we took the confirmation in Part (c) to

1 mean that we had done the calculations correctly.

2 BY MS. DREIFUSS:

3 Q In any event, rather than debate whether we  
4 have or we have not, why don't we do this? Why don't  
5 we just ask you to look at this subject to check and  
6 then on brief certainly the Postal Service could point  
7 out any errors that OCA made.

8 Shall we just go ahead and assume for  
9 purposes of this question that what is set out here is  
10 correct and it is subject to your checking it more  
11 thoroughly later?

12 A Sure.

13 Q Okay. Now, before I ask you about this  
14 exhibit I do have a question for you. Are you the  
15 witness responsible for assessing the accuracy and  
16 reliability of Bookspan's volume projections for  
17 future periods of time?

18 A The assessment that was made on the  
19 projections was a team effort.

20 Q But you're the witness on that as opposed to  
21 Witness Plunkett? Am I correct there?

22 A On the volume projections? That is correct.

23 Q Okay. When you look at this exhibit you'll  
24 see that Witness Epp estimated that at a price of 17.8  
25 cents -- that's the first line, and that 17.8 cents

1 would be following a 5.4 percent rate increase and  
2 with NSA discounts in place -- that Bookspan would  
3 tend to mail 105 million letters. Do you see that?

4 A Correct.

5 MR. REITER: Ms. Dreifuss, could you specify  
6 what year that's for?

7 MS. DREIFUSS: Yes. I apologize. This is  
8 for 2006. I had an earlier version of this with 2006  
9 typed into it, and I neglected to type it in on this  
10 one. I do apologize. This is for 2006.

11 MR. REITER: When I was looking up your  
12 references for (c), Witness Yorgey's response to your  
13 Question 19, I believe that says FY 2005.

14 MS. DREIFUSS: Right. It does say FY 2005.

15 MR. REITER: Could you help us then by  
16 telling us which numbers are from which year? I think  
17 that would be helpful to understand.

18 MS. DREIFUSS: Sure. Well, the Plunkett  
19 response to 16 I cite at page 3 of the attachment, and  
20 that was 2006.

21 The Epp testimony at page 11, I'll have to  
22 pull that out. Witness Epp's testimony on page 11 has  
23 three columns. This is his Table 2. He labels it  
24 Bookspan's Forecast of Solicitation Volume, and I'm  
25 using the figure from fiscal year 2006. That's the

1 first column. This would be new membership standard  
2 letter size pieces of 105 million.

3 Do you have any other questions?

4 BY MS. DREIFUSS:

5 Q We did have a question about Witness  
6 Yorgey's answer to OCA 19. Okay. In 19 OCA asked  
7 you, "Please provide the average revenue per piece for  
8 Bookspan's standard mail regular letter sized pieces,"  
9 in Part (b).

10 You said that, "For fiscal year 2005, we  
11 project fiscal year revenue per piece to be 18.2  
12 cents." Do you see that?

13 A Yes.

14 Q Do you have any reason to believe that the  
15 average revenue per piece in fiscal year 2006 would be  
16 different or very different from the 18.2 cents?

17 A No, I have no reason to believe it would be  
18 very different for 2006.

19 Q Okay. All right. So on the first line  
20 we've got 17.8 cents revenue per piece, and that  
21 reflects a rate hike of 5.4 percent and NSA discounts,  
22 and Witness Epp estimates volumes of 105 million  
23 letters. As I say, just accept this subject to check.

24 Now we'll go to Line 2. We have other  
25 figures we've been able to collect in the record.



1 With no rate hike -- in other words, no 5.4 percent  
2 omnibus rate increase -- and no NSA discounts the  
3 average revenue per piece is 18.2 cents. Do you see  
4 that?

5 A Yes, I do.

6 Q And the difference then in moving from 17.8  
7 cents to 18.2 cents is .4 cents. Is that correct?

8 A Correct.

9 Q Does that sound right to you?

10 A Correct.

11 Q Okay. You don't need to do the percentage  
12 calculation right now. I calculated that to be a 2.2  
13 percent reduction in price. I'm sorry. I should have  
14 said a 2.2 cent increase in price. I got that wrong.  
15 I apologize for that.

16 The reduction is in the volumes, not in the  
17 price. It's a price increase and a volume reduction.  
18 Over in the Volume Estimate column that results in a  
19 decrease in letter volume of 25 million pieces. Do  
20 you see that?

21 A Correct.

22 Q And that would be a negative 24 percent  
23 change in volume. Do you see that?

24 A Yes, I do.

25 Q Okay. So a price increase of .4 cents

1 results in a reduction in volume of 25 million  
2 letters.

3 Finally, in the third line we present the  
4 price of 19.8 cents, which is based on the assumption  
5 of having a rate increase of 5.4 percent, but no NSA  
6 discounts, and that would be, and I apologize for the  
7 wrong sign. I put a negative. It's a positive sign.

8 Both the .4 and the 1.6 have a positive  
9 sign, a positive sign of 1.6 cents. The price goes up  
10 1.6 cents. Do you see that?

11 A Yes, I do.

12 Q And so actually the negative signs in the  
13 Change In Price column are wrong also. Those are  
14 positive signs, and that results in a volume reduction  
15 of two million letters. Do you see that?

16 A Yes, I do.

17 Q Okay. I wanted to ask you if that sounds  
18 plausible to you that a .4 cent increase in price  
19 results in 25 million new letters, but a 1.6 cent  
20 increase in price results in a reduction of only two  
21 million letters. Does that seem plausible to you?

22 A Based on the calculations that you're  
23 providing here, I mean, I can't dispute the numbers  
24 that you've presented.

25 Q Right. Would you have expected such a

1 marked difference in price response, 25 million  
2 letters less, based on a .4 cent price increase, but  
3 only a small fraction of that volume response with a  
4 1.6 cent price increase? Is that something you would  
5 have expected to see?

6 A I would like to do some further analysis  
7 before I would comment on that.

8 Q Well, what kind of analysis would you do?

9 A I would want to compare it with some of the  
10 spreadsheets that I have worked with in doing their  
11 buying analysis.

12 MR. REITER: Mr. Chairman, I think this  
13 demonstrates why it would have been appropriate if the  
14 OCA had provided this to us ahead of time. We could  
15 have done that and made this more productive.

16 I think it's very difficult for the witness  
17 to go through this orally without having had an  
18 opportunity to do that. The OCA will have an  
19 opportunity to present whatever analysis they want in  
20 their filing testimony.

21 BY MS. DREIFUSS:

22 Q Let me just ask you one thing. I won't ask  
23 you to comment further other than this.

24 It is true that the 1.6 cent price  
25 difference is four times the .4 cent price difference?

1 Is that right? You can do that math. Four times .4  
2 equals 1.6. Is that correct?

3 A (Non-verbal response.)

4 Q You have to answer.

5 A Yes.

6 Q Okay. Thank you.

7 CHAIRMAN OMAS: Excuse me. Ms. Yorgey,  
8 would you please speak into the mike, and when you  
9 answer rather than with your head say yes or no or  
10 whatever? Thank you.

11 BY MS. DREIFUSS:

12 Q Let's look at the Change In Volume column.  
13 The volume response is at least 12 times. The 25  
14 million letter response is a little more than 12 times  
15 that of the two million letter response. That's true,  
16 isn't it?

17 MR. REITER: Mr. Chairman, I'm sorry to  
18 interrupt again, but I want to understand.

19 Is counsel asking the witness simply to  
20 confirm the math that's shown on the table or to  
21 actually say that these are accurate figures, which  
22 she's already indicated she can't do off the cuff?

23 MS. DREIFUSS: I'm only asking her to do the  
24 math if she doesn't mind doing the math. I know she's  
25 got a facility with numbers.

1 BY MS. DREIFUSS:

2 Q Can you do the math?

3 A You're asking me to do 12 times two?

4 Q Twelve times two.

5 A Is 24.

6 Q Right. So we're talking about a volume  
7 response a little bit more than 12 times, are we not?

8 A Yes, ma'am.

9 Q Okay. So just to sum it up, we've got a  
10 change in price on the magnitude of four times, but we  
11 have a change in volume on the magnitude of a little  
12 over 12 times. Is that right? That is just strictly  
13 in terms of the mathematical computations.

14 MR. REITER: Mr. Chairman, for clarity I  
15 believe counsel already indicated that those are not  
16 prices. Those are revenue per piece figures that  
17 she's calculated.

18 MS. DREIFUSS: Yes. With that  
19 qualification.

20 BY MS. DREIFUSS:

21 Q Do you want me to repeat my question?

22 A Yes, ma'am.

23 Q Okay. We have a magnitude change in price  
24 of four times.

25 MR. REITER: I'm sorry. I thought we just

1     agreed --

2                   MS. DREIFUSS:  In other words, I just agreed  
3     that what I call the change in price is a change in  
4     revenue per piece.  Is that the way you want me to ask  
5     it?

6                   MR. REITER:  I'm not sure it's the same  
7     thing, but I'm not the witness.

8                   MS. DREIFUSS:  Okay.  I'm happy to speak of  
9     it in terms of revenue per piece.

10                  BY MS. DREIFUSS:

11                 Q     We have a change in the revenue per piece on  
12     the magnitude of four as contrasted with a change in  
13     volume response on the magnitude of a little over 12.  
14     Is that correct?

15                 A     Based on the calculations that are here in  
16     front of me.

17                   MS. DREIFUSS:  Okay.  Thank you.

18                   OCA has some questions concerning Witness  
19     Epp's monthly volume projections.  This gets a little  
20     complicated in terms of matters that Bookspan may want  
21     to keep under seal.

22                   Let me just describe what was -- well,  
23     actually I should probably ask counsel if she's even  
24     comfortable with my characterizing one of the answers  
25     under seal.

1                   Do you mind if I confer for just a moment  
2     before I proceed, Mr. Chairman?

3                   CHAIRMAN OMAS:   Yes.

4                   MS. DREIFUSS:   Thank you.

5                   (Pause.)

6                   MS. DREIFUSS:   Mr. Chairman, I'm glad I had  
7     the opportunity to confer with counsel.   OCA observed  
8     what we thought was maybe a similar forecasting  
9     problem for monthly volume projections for August and  
10    September 2005.   Those figures were provided under  
11    seal yesterday.   Annual figures were presented by the  
12    Postal Service.

13                  Counsel for Bookspan informs me that she  
14    believes that the problem was simply a mistake in the  
15    information.   There's an error in the projected volume  
16    figures that were given under seal.

17                  The correction has never been provided to  
18    the Commission up to this point, so OCA assumed it was  
19    a forecasting problem, but it may be only a clerical  
20    problem.   I guess the best way to proceed with that  
21    then would be for OCA to discuss it with Witness Epp  
22    tomorrow because this was an answer that he provided.

23                  I believe counsel for Bookspan indicated  
24    that if the number previously provided is incorrect  
25    that it would be corrected.

1 MS. BRICKMAN: That's correct, Mr. Chairman,  
2 if that is upon confirmation with the witness. It  
3 appears to be simply a typo. With confirmation with  
4 the witness we can file an amended exhibit.

5 CHAIRMAN OMAS: All right. Thank you.

6 MS. DREIFUSS: So those are questions I will  
7 not need to pose to you today, Witness Yorgey, because  
8 I don't know whether we're talking about a clerical  
9 mistake or a forecasting mistake, so there's no point  
10 in proceeding.

11 BY MS. DREIFUSS:

12 Q I did have one final line of questions for  
13 you, and that is as it concerns Bookspan's plans to  
14 place inserts from strategic business allies into its  
15 mailings in the future. Are you familiar with that  
16 intention of theirs?

17 A Yes.

18 Q Do you know whether Bookspan through this  
19 period of time has had an established program of  
20 including such business ally inserts in its  
21 solicitation mailings?

22 A In reference to their testimony, they said  
23 they had been doing this on a test basis.

24 Q Right. So it's your understanding that it  
25 is only on a test basis?



1           A     In reference to their testimony.

2           Q     So generally speaking, the volumes that  
3     you've been working with for 2002 through 2005 were  
4     volumes that were generated without an established  
5     strategic business ally program? Is that correct?

6           A     From 2002 to 2005?

7           Q     Yes.

8           A     For what?

9           Q     For Bookspan's solicitation mailings. In  
10    other words, the volumes that we've been looking at in  
11    the record up to this time through 2005 were the  
12    reflection of mailings that were solely Bookspan  
13    solicitation mailings and aside from a few test pieces  
14    did not reflect an established strategic business ally  
15    program. Is that correct?

16               MR. REITER: Could I ask the basis for  
17    counsel's factual statement about a few pieces?

18               MS. DREIFUSS: Sure. I can give you a  
19    specific number. Let me refer to Witness Posch's  
20    answer.

21               CHAIRMAN OMAS: Ms. Dreifuss, your mike.

22               MS. DREIFUSS: I'm sorry. I brushed against  
23    it.

24               BY MS. DREIFUSS:

25           Q     This is Witness Posch's response to OCA

1 Interrogatory Bookspan-T-1-8, and in answering Part  
2 (c) through (h) and (i) he stated, "Inserts were  
3 included in new member solicitations as part of a test  
4 conducted for the first time in 2005."

5 Witness Yorgey, do you remember reading that  
6 statement of Witness Posch?

7 A Yes.

8 Q And then in the answer to Part (i) he says,  
9 "As only a nominal percentage of Bookspan new member  
10 mail has included inserts from strategic business  
11 allies to date, and this has only been done as a test  
12 for the first time in 2005." He then gives his  
13 expectations about their future plans.

14 Did you read Part (i)? Have you had a  
15 chance to read or have you ever read Witness  
16 Posch's --

17 A Yes.

18 Q Okay. So you're familiar with these  
19 statements that the new member solicitations had  
20 strategic business ally inserts as part of a test for  
21 the first time in 2005? You're familiar with that  
22 statement, correct?

23 A Yes.

24 Q And that he characterized this as only a  
25 nominal percentage of Bookspan new member mail.

1       You're familiar with that also, aren't you?

2           A     Yes.

3           Q     Okay.

4                   MR. REITER: I'm sorry to interrupt again,  
5 but it might be helpful if the witness had a copy of  
6 this in front of her. I'd be happy to provide that.

7                   MS. DREIFUSS: Sure. Go ahead.

8                   BY MS. DREIFUSS:

9           Q     Have you had a chance to look it over?

10          A     Yes.

11          Q     Okay. I guess I might as well give the  
12 specific number that's cited by Witness Posch.

13                   In his answer to Part (c) through (h) he  
14 states that there were approximately 350,000 new  
15 member solicitation mail pieces that included inserts  
16 in 2005. Does he not say that?

17          A     Yes, he does.

18          Q     And that was as contrasted with a total  
19 solicitation letter mailing of I believe 79.4 million  
20 pieces --

21          A     Correct.

22          Q     -- in 2005?

23          A     Correct.

24          Q     Now, I have not done the percentage  
25 calculation previously, but it's a very tiny

1 percentage or nominal percentage in fact is the  
2 correct characterization of that small number, of  
3 350,000 compared to 79 million. Is that correct?

4 A I would say that's correct.

5 Q Okay. So prior to 2005, if we understand  
6 his statements correctly, there weren't even any test  
7 pieces in Bookspan's new member solicitations, were  
8 there?

9 A According to his testimony, that's correct.

10 Q Right. They show up for the first time in  
11 2005, and there they show up as only a nominal  
12 percentage. Is that correct?

13 A That's correct, according to this document.

14 Q Okay. So let me go back to my earlier  
15 question. The volumes that we have been seeing for  
16 Bookspan in 2002, 2003, 2004 didn't include any  
17 strategic business partner inserts at all according to  
18 Witness Posch. Is that correct?

19 A According to his testimony, that's correct.

20 Q And they show up only nominally in 2005. Is  
21 that correct?

22 A Correct.

23 Q Therefore, the volumes that we've been  
24 working with in this proceeding, I think it would be  
25 fair to say, do not reflect an established strategic

1 business ally program. Is that correct?

2 A The volumes for 2002, 2003 and 2004 do not  
3 reflect inserts from strategic business partners in  
4 the new member solicitation volume.

5 Q Right. Now, since this has only been done  
6 on a test basis it's possible that Bookspan may  
7 introduce a significant new program to insert  
8 strategic business ally inserts into its solicitation  
9 letters, isn't it?

10 A I think they've acknowledged that they are  
11 working with the new program by stating that they're  
12 testing it in 2005, and it was a very small volume of  
13 inserts that they did in 2005, so that is correct.

14 Q Right. In Part (i) Witness Posch says, "I  
15 expect that the percentage of projected new member  
16 mail pieces that will include inserts from strategic  
17 business allies pursuant to the NSA will be a nominal  
18 percentage." He does say that, doesn't he?

19 A Yes.

20 Q That's an expectation at this time. I  
21 suppose it's possible that those plans could change  
22 over the three years of the NSA, couldn't they?

23 A A possibility of a change occurring, yes.

24 Q And if that change does occur then the  
25 volumes we would see under those circumstances over

1 the three years of the NSA might reflect not only the  
2 incentive to mail more because of NSA volume  
3 discounts, but may also reflect the fact that there  
4 could be an established program to include strategic  
5 business partner inserts in the mail. Is that  
6 correct?

7 A That could help that program moving forward.  
8 That's correct.

9 MS. DREIFUSS: Okay. I have no further  
10 questions. Thank you, Mr. Chairman, and thank you,  
11 Witness Yorgey.

12 CHAIRMAN OMAS: Thank you, Ms. Dreifuss.

13 I think what we'll do is we'll take a 10  
14 minute recess before we let Mr. Olson begin if that's  
15 all right with you, Mr. Olson.

16 MR. OLSON: Yes, sir.

17 CHAIRMAN OMAS: Thank you.

18 (Whereupon, a short recess was taken.)

19 CHAIRMAN OMAS: Mr. Olson?

20 CROSS-EXAMINATION

21 BY MR. OLSON:

22 Q Ms. Yorgey, Bill Olson representing Valpak  
23 Direct Marketing Systems and Valpak Dealers  
24 Association. Hi. I'd like to ask you to turn to your  
25 response to Valpak USPS-T2-7.

1           A     Okay.  Yes.

2           Q     Take a look Section A.  In Part A there you  
3     were asked to confirm that the forecasted change in  
4     volume was as shown there, and I believe your answer  
5     is on the next page confirmed, correct?

6           A     Correct.

7           Q     So that volume in Section A is all  
8     solicitation mail is it not?

9           A     Correct.

10          Q     Okay.  OCA asked you a difficult question  
11     about multiplication.  We just have one on addition.  
12     If you could take those three numbers across, the  
13     change in volume numbers for 2006-2007 and 2008, and  
14     add them together and tell me how much the total  
15     forecasted change in volume of solicitation mail will  
16     be under the NSA?

17          A     Thirty-four million.

18          Q     Would you like to try that again?

19          A     I'm sorry.  Thirty-three million.

20          Q     The 33 million is -- let's go back to your  
21     testimony at page 7.  You discuss on pages 6 and 7  
22     different financial affects of the NSA and on page 7,  
23     let's just focus on that, you talk about the  
24     multiplier affect.  You call that a second stream of  
25     value on line 6.  Do you see that?

1           A     Correct.  Yes.

2           Q     On lines 9 and 10 you say the Postal Service  
3     did not include the financial benefits from the  
4     multiplier affect in evaluating the financial value of  
5     the NSA, correct?

6           A     Yes.  That has been -- I did submit that  
7     yesterday.

8           Q     The amended response?  Is that what you're  
9     referring to?

10          A     Yes.

11          Q     I'm not going to ask you about that because  
12     frankly I didn't know about it until Mr. Baker just  
13     advised me about it, so I'll let him take care of  
14     that.  Let me just talk about pieces of mail and how  
15     to look at the multiplier for a second.

16                 On page 7, line 8, you state that based on  
17     historical Bookspan volumes that you expect the result  
18     of the new volume of solicitation mail to result in an  
19     additional 25 million pieces of standard mail  
20     catalogs, downprinted matter book fulfillment and  
21     first-class mail correspondence, correct?

22                 That's a correct reading of what you're  
23     saying, correct?

24          A     That's correct.

25          Q     Then would it be a reasonable inference from



1     that statement to say that the additional 33 million  
2     pieces of new volume or solicitation mail that we  
3     calculated a minute ago is expected to result in 25  
4     million other pieces in the list of three we just went  
5     over?

6           A     That is correct. That's the multiplier  
7     affect that we're referring to in this sentence.

8           Q     So in terms of looking at the size of the  
9     multiplier affect could we look at it in terms of 25  
10    million other pieces divided by 33 million pieces of  
11    solicitation mail as a measure of the magnitude of the  
12    multiplier affect? One way to look at it?

13          A     That would be one way to look at it.

14          Q     If you did the calculation I'd just ask you  
15    to accept that 25 million divided by 33 million would  
16    be about 76 percent, just accepting that --

17          A     Just accepting. Okay.

18          Q     Okay. Before I go into my next question I  
19    wanted to ask you about the termination clause. You  
20    discuss this at page 6 of your testimony, but I don't  
21    really know how you and Mr. Plunkett divvy up the  
22    responsibility. I wanted to ask some questions about  
23    the termination clause, and why it's in there and how  
24    it works.

25                   Is that better asked to you or to him? You

1 get to defer if you'd like.

2 A I can defer that to Mr. Plunkett.

3 Q I wish you luck at review time. All right.  
4 I'll pass those over. I think it's in both of your  
5 testimony and besides, if you don't leave town we can  
6 get you back I guess, but I'll ask Mr. Plunkett that.  
7 Let me ask you to look at page 1 of your testimony,  
8 and ask you to focus on the bottom part of the page  
9 beginning at line 18.

10 I'm just going to read that with some words  
11 eliminated to get to the sense of what I'm trying to  
12 get at about limiting the NSA to letters. You say the  
13 Bookspan NSA is designed to provide -- into the next  
14 sentence -- incentives to Bookspan to increase the use  
15 of standard mail letters, correct?

16 A Correct.

17 Q On lines 21 and 22 at the bottom of the page  
18 there you say the incentives are based on volumes of  
19 and apply only to solicitation letters prepared and  
20 claimed at letter rates, and I eliminated some words,  
21 but the incentives only apply to letters prepared and  
22 claimed at letter rates, correct?

23 A Correct.

24 Q That's what I want to get at and make sure I  
25 understand. Wouldn't the Postal Service also benefit

1 from additional revenue generated by an increased  
2 volume of standard mail flat solicitations?

3 A Yes. I believe we did mention that in our -  
4 - that was mentioned that rate prices for this would  
5 benefit.

6 Q That's not qualifying volume for purposes of  
7 the incentives, correct, of the discount?

8 A The letters are qualifying for the discount.

9 Q Right. Let me go back to make sure I did  
10 that right. I asked you if the Postal Service  
11 wouldn't also benefit by additional revenue generated  
12 from standard mail flat solicitations, and I think you  
13 said yes, that was discussed in the testimony?

14 A I'm sorry. Let me correct that. The  
15 question -- I thought you were going in the direction  
16 of the conversion from flats to letters. I apologize  
17 for that.

18 Q No. I'm trying to get to the rationale for  
19 limiting the qualification for the discount to letters  
20 only, you see? So what I'm asking you is wouldn't the  
21 Postal Service also benefit from the additional  
22 revenue generated from additional standard flat  
23 solicitations?

24 A There is the possibility that an increase of  
25 that binds.

1 Q Is that discussed in your testimony?

2 A No.

3 Q What is the reason that the NSA was limited  
4 to letter volumes?

5 MR. REITER: Mr. Chairman, I might suggest  
6 that the witness has just indicated this is not  
7 discussed in her testimony, and since it's an overall  
8 policy type of question it might be better directed to  
9 witness Plunkett.

10 BY MR. OLSON:

11 Q Do you agree with that?

12 A Yes, I do.

13 Q Now, well, I'll take all these and ask him.  
14 Let me ask you to turn to page 7 of your testimony and  
15 ask you some questions about the financial impact of  
16 the Bookspan NSA. On page 7, let's start beginning  
17 with lines 2, you say the total estimated financial  
18 impact over the three year period of the NSA is a net  
19 benefit to the Postal Service of \$7.4 million,  
20 correct?

21 A That is correct, and a revision was made  
22 when we filed the Presiding Officer Information  
23 Request No. 1. We made a revision to that.

24 Q The original number was \$7.4 million and  
25 that was supported by your Appendix A, page 9,

1 correct?

2 A The first financial model. That's correct.

3 Q Then when POIR No. 1 came out and you made  
4 the amendment you were asked to have a set of numbers  
5 that had all of the revenues, I believe costs and  
6 volumes for after rates scenario. That's what you did  
7 in your amendment, correct?

8 A Correct.

9 Q So really the response to the Commission's  
10 POIR No. 1 results in a set of numbers that might be  
11 considered more internally consistent than the  
12 original numbers?

13 A That's correct.

14 Q That amended table in response to the  
15 Commission's POIR No. 1 shows a net benefit to the  
16 Postal Service not of \$7.4, but of \$7.7 million,  
17 correct?

18 A Correct.

19 Q I'm going to ask you a couple of questions  
20 about this, but I want you to now focus on your  
21 amended response, the \$7.7 million, the response to  
22 the Commission POIR No. 1 not the testimony as  
23 originally filed if that's okay. When I refer to the  
24 Appendix A it's going to be the amended pages that you  
25 provided, okay?

1           A     Okay.

2           Q     Let's start with your response to Valpak T2-  
3           9, specifically C and D which you answered together.  
4           Are you ready?

5           A     I'm ready.

6           Q     In Part C of our question you were asked if  
7           the unit cost shown in Appendix A, page 6, for  
8           standard mail regular nonletters were a reasonable  
9           proxy for the Postal Service's costs of handling  
10          Bookspan's standard mail regular nonletters.

11                 You said yes, they are a reasonable proxy,  
12          but you also noted that you use them for a limited  
13          purpose to estimate the financial affects of the  
14          expected migration of mail that is currently entered  
15          as flats to letters. Is that correct?

16          A     That's correct.

17          Q     Now, let's turn to page 8 of that Appendix A  
18          to the POIR response. Do you have it?

19          A     You said page 8?

20          Q     Yes.

21          A     Yes. I have that.

22          Q     In the first column, which is labeled  
23          FY2006, on Row 2 you show a cost per piece for letters  
24          of .085. Do you see that?

25          A     Yes. I see that.

1           Q     You deduct the .085 unit cost from a revenue  
2     per piece of .198 to get a unit contribution for  
3     letters of .113, 11.3 cents. Is that right?

4           A     Correct.

5           Q     On Row 5 you show a cost per piece for flats  
6     of .196 right?

7           A     Correct.

8           Q     You deduct that unit cost for flats from a  
9     revenue per piece for flats of .223 and you get a  
10    contribution per flat of .027 or 2.7 cents, correct?

11          A     Correct.

12          Q     Now, if the unit cost in Row 2 for letters  
13    and Row 5 for flats are a reasonable proxy for  
14    Bookspan's costs I assume you consider the unit  
15    contributions shown in Rows 3 and 6 to be a reasonable  
16    proxy to use for evaluating the financial impact of  
17    the Bookspan NSA?

18          A     Yes.

19          Q     Let's look at letters. Would you agree that  
20    the unit cost you use in line 2 represents an average  
21    cost over all the different letter rate categories  
22    that Bookspan uses and that the Postal Service  
23    computes cost for it?

24          A     That is correct.

25          Q     Likewise, the unit contribution on the next

1 line for letters is also an average over all the  
2 different letter rate categories?

3 A That is correct.

4 Q Obviously that Bookspan uses.

5 A That Bookspan uses.

6 Q Then the same thing for flats. You'd agree  
7 I take it that the unit cost in Row 5 are an average  
8 of all the different flat rate categories that  
9 Bookspan uses?

10 A That's correct.

11 Q And the unit contribution in line 6 for  
12 flats is also an average over all the different flat  
13 categories that Bookspan uses, correct?

14 A That is correct.

15 Q Now, we get to disaggregating some of these  
16 averages, and this is the subject matter of a cross-  
17 examination exhibit which I gave you not particularly  
18 late yesterday afternoon and I hope you have that with  
19 you.

20 A Yes. I have it with me.

21 Q I guess you've had at least some chance to  
22 look at this and see that much of the information is  
23 drawn from your response to POIR No. 1, and I just  
24 want to go over this with you --

25 A Sure.



1           Q     -- as to what came from there. On Valpak  
2     Cross-Examination Exhibit No. 1, Columns 1 and 2 are  
3     drawn from your POIR response and then the unit  
4     contribution calculated from those in Column 3. Do  
5     you see that?

6           A     Yes. If we could just go over that a little  
7     bit in detail? Column 1 is based from the information  
8     that you took from page 3 and 5. Is that what you're  
9     referencing?

10          Q     Let me just get to that. Revenues for  
11     letters is on page 3, cost for letters is on page 4,  
12     revenues for flats is on page 5 and cost for flats is  
13     on page 6, correct?

14          A     Okay.

15          Q     In Columns 1 and 2 in any event do you see  
16     any transcription errors that we've made from your  
17     revised Appendix A?

18          A     I would say in the Column Header 2 would not  
19     be Bookspan's specific unit cost. I would say that  
20     header would be recognized as the national average  
21     unit cost that uses a proxy to determine a  
22     contribution. The revenue column is Bookspan  
23     specific, so that header would be identified properly.

24          Q     Because in fact I guess we jumped there from  
25     the notion that the average unit costs for the nation

1       were being used as a proxy for Bookspan costs --

2           A       That's used as a proxy.

3           Q       Right. Other than the heading of Column 2  
4       is there any other error that you see in terms of  
5       transcription of your numbers of costs and revenues?

6           A       No. I do not see any.

7           Q       I don't know if you had a chance to look at  
8       the unit contribution column which is just a  
9       calculation, Column 3, as to whether there were any  
10      errors there that you saw as of so far?

11          A       I did not check the calculation on that, but  
12      I would say that you used a sale number in those sales  
13      to determine that result.

14          Q       Well, it's simply unit revenue --

15          A       Subtracting.

16          Q       -- minus unit cost equals unit contribution,  
17      so Column 1 minus Column 2 equals Column 3. Is that  
18      clear?

19          A       That seems clear.

20          Q       Well, let's talk about this cross-  
21      examination exhibit. Not so much about that there's  
22      anything unique in this exhibit, but it's a way to get  
23      at your testimony and try to understand what's going  
24      on not with average letter and flat cost and revenues,  
25      but rather when we disaggregate it down to specific

1 products that Bookspan uses. You see that's what  
2 we're trying to get at?

3 A Yes.

4 Q The letter categories consist of Rows 1  
5 through 8 and among them the lowest contribution shown  
6 in the far right-hand column is 2.9 cents per piece.  
7 Is that correct?

8 A Correct.

9 Q These unit contribution calculations in the  
10 context of the Bookspan NSA are stated prior to the  
11 application of any discounts that would be offered  
12 under the NSA, correct?

13 A Correct.

14 Q The discounts at least in years one and two  
15 are either two or three cents if they qualify,  
16 correct?

17 A Yes. That's correct.

18 Q Again, of those letter categories the  
19 product with the highest unit contributions is again  
20 bolded there. You'll see .134 or 13.4 cents. Do you  
21 see that?

22 A Yes.

23 Q Now, within the letter categories set out in  
24 this chart the ratio of the highest unit contribution  
25 to the lowest unit contribution is well over four to

1 one. Would you agree with that? 2.9 cents compared  
2 to 13.4 cents?

3 A I would agree. I have no reason to object  
4 to your calculation at this point.

5 Q Well, I don't want to get into  
6 multiplication, but if you multiply three times four  
7 that gets you to 12 I think and that's less than 13.4,  
8 so the ratio's over four to one, correct?

9 A Okay.

10 Q So that's quite some spread around the  
11 average unit contribution for letters isn't it?

12 A Yes.

13 Q Despite the spread isn't it true that we can  
14 conclude that for all of Bookspan's letters that come  
15 in under the NSA that they will always be profitable  
16 for the Postal Service even at the lowest unit  
17 contribution rate cell at a two discount at least it  
18 will always be profitable?

19 A At a two cent discount.

20 Q If you get to the three cents that one  
21 product may be a problem, but all the rest would still  
22 be okay, correct?

23 A Of those groups that are listed. Correct.

24 Q Right. Of the letters. Now, let's look at  
25 the flats in Rows 9 through 13. The lowest

1 contribution of any of these is shown in bold at line  
2 12, which is actually a negative number, -.009 or -.9  
3 cent per piece meaning the Postal Service's volume  
4 variable cost exceeds revenue by almost a penny a  
5 piece on auto three-five digit presort nonletters,  
6 correct?

7 A Correct.

8 Q That's sort of an interesting curiosity is  
9 it not?

10 A I believe I answered that question earlier.  
11 On August the 9th with this filing with the Presiding  
12 Officer's Information Request they pointed out that  
13 reference earlier.

14 Q Forgive me. I was a bit preoccupied with  
15 another case at the time. Can you tell me what you  
16 said or if you found it curious?

17 A I'm looking for that reference.

18 Q Sure.

19 A It was Presiding Officer's Information  
20 Request No. 1, Question No. 3.

21 Q You didn't happen to say it was curious did  
22 you?

23 A I don't see that word listed.

24 Q Did you characterize it in any way?

25 A We explained -- the rationale was that we

1 don't have Bookspan specific revenue units. That  
2 information is easily available through our permit  
3 system. The question data for Bookspan specific would  
4 not be easily available, so therefore we use those  
5 national average units.

6 Q Because you said before that the national  
7 averages are a reasonable proxy for Bookspan, correct?

8 A For the purpose of this analysis they are a  
9 reasonable proxy to use.

10 Q Let's look at the highest unit contribution  
11 from any of the flats categories used by Bookspan.  
12 Again, it's bolded and it's in Row 13, basic nonletter  
13 ECR, a contribution of 8.0 cents per piece, correct?

14 A Correct.

15 Q So between a loss of almost a penny a piece  
16 and a gain of eight cents a piece that's, again, quite  
17 a spread among these flat products, correct?

18 A That is quite a spread. Correct.

19 Q Your financial evaluation relies not on  
20 these numbers that we've been talking about today, but  
21 rather on the averages of letters and flats does it  
22 not?

23 A The financial analysis, it does in fact rely  
24 on the numbers of Columns 1 and 2. That is correct.

25 Q Well, it relies on average contribution for

1 letters and flats as shown in page 8 of your Appendix

2 A doesn't it?

3 A It's averaging that. It's using the average  
4 unit cost proxy.

5 Q Right. I'm going to risk an objection and  
6 ask this question to try to get to the issue of using  
7 averages in areas where there is widespread of unit  
8 contributions and come up with a bit of an analogy and  
9 ask you if you did not know how to swim, and you were  
10 hiking along a trail, and there was a river that had a  
11 sign saying the river had an average depth of two feet  
12 would you want to cross that river if you couldn't  
13 swim?

14 A I can swim.

15 Q If it's a hypothetical I get to establish an  
16 assumption that you can't swim. Obviously what I'm  
17 trying to get at is that --

18 A Calculated risk.

19 Q Well, I'm trying to get at the fact that if  
20 you have an average two foot depth you could have a  
21 one foot depth to be on the banks, and 10 feet in the  
22 middle and be in trouble walking across that river  
23 bank, correct?

24 A If you couldn't swim you could. That's  
25 correct.

1           Q     Well, let's see how to apply that unobjected  
2     to story on Cross-Examination Exhibit No. 2.  
3     Appreciate counsel's indulgence. Cross-Examination  
4     Exhibit No. 2 stapled to the first one Column 1 and  
5     Column 2 are, again, from the first page revenue per  
6     piece, unit cost.

7                     Column 3, again, is unit contribution, but  
8     here we take the volumes from your POIR response and  
9     multiply them by the unit contributions to come up  
10    with total contributions in Column 5. Do you see  
11    that?

12           A     Yes. I see.

13           Q     Since Columns 1, 2 and 3 are the same as  
14    they were on the first page the only thing that  
15    changes here is the addition of your volumes. Did you  
16    have a chance to double check whether we accurately  
17    faithfully recorded your volumes?

18           A     I did look over this. Let me look real  
19    quick. Right here. That's where I do see a typo in  
20    the first one, letters.

21           Q     What's that?

22           A     1,518,805.

23           Q     805 instead of --

24           A     805.

25           Q     Okay. Thank you. Anything else? Of course



1 we'd also have to change the subtotal and make it 756  
2 at the end, correct?

3 A That's correct. I don't see any other  
4 typos.

5 Q Thanks. Would you look in the far right-  
6 hand column? You will see that there's a bolded  
7 number under letters and a bolded number under flats.  
8 The average under letters there right below Row 8 is  
9 11.3 cents and that's the same figure you show on page  
10 8 of Appendix A of your revision to the Commission's  
11 POIR, correct?

12 A Correct.

13 Q Similarly at the bottom of that Column 3 we  
14 have the average contribution for flats of 2.7 cents  
15 which is the same figure you show on page 8 when you  
16 talk about flats, correct?

17 A Correct.

18 Q Now, let's focus on the data for flats in  
19 this cross-examination exhibit in Rows 9 through 13  
20 and specifically on Row 13, basic nonletter ECRs,  
21 which is the second highest volume of Bookspan volume  
22 for any single product, correct?

23 A Correct.

24 Q According to your data the Postal Service  
25 gained a contribution of eight cents per piece on this

1 volume, correct?

2 A Correct.

3 Q Looking right above that on line 12  
4 Bookspan's highest volume product usage of 97 million  
5 flats was in the standard auto three-five digit  
6 category, wasn't it? That was the highest volume, 97  
7 million?

8 A Correct.

9 Q According to these disaggregated data which  
10 underlie the unit contributions on page 8 of your  
11 testimony of your Appendix A the Postal Service lost  
12 almost a penny per piece on this volume, correct?

13 A Almost. Correct.

14 Q Looking again at line 13 the 65.7 million  
15 pieces of ECR flats that Bookspan mailed in 2004 along  
16 with 97.1 million standard regular auto three-five  
17 digit flats together account for about by my  
18 calculation 99 percent of Bookspan's flats in 2004.  
19 Does that sound about right?

20 A Without a calculator I would say that's  
21 about right.

22 Q So just summarizing this, with respect to  
23 Bookspan's flats the Postal Service either loses a  
24 little bit on each one or earns a fairly healthy  
25 contribution to overhead depending on whether the

1 flats are standard regular three-five digit auto or  
2 ECR basic, correct?

3 A Correct.

4 Q They don't actually mail flats that have an  
5 average contribution of 2.7 cents in any of these  
6 specific products do they?

7 A I'm sorry. Could you restate that question?

8 Q Yes. There are none of the flat products  
9 set out in lines 9 through 13 that actually have a 2.7  
10 cent unit contribution which is the average which you  
11 use for all flats? It's either higher than that or  
12 lower than that, but there's nothing on average,  
13 correct?

14 A Nothing specifically on that number. That's  
15 why it's an average. That's why we're using that as  
16 an average.

17 Q Going back to the crossing the river do you  
18 see how using an average here might be like using an  
19 average depth of the river before you decide to cross  
20 it?

21 A I will go back to my response to the  
22 Commission and state that when in using these numbers  
23 for the purposes of financial analysis of this  
24 agreement this was the best data that was available to  
25 develop the financial analysis.

1           Q     Well, is it not true that you could  
2     disaggregate the way we've done here in your analysis  
3     and calculate the unit contribution for each specific  
4     product rather than using averages for flats and  
5     averages for letters? You didn't do this, we did this  
6     right?

7           A     You took the information that was provided  
8     in the attachment and separated out in this format.  
9     That's correct. You did that.

10          Q     Did you do this analysis?

11          A     Yes. In this format because I felt this was  
12     the best format to use to put forward a financial  
13     analysis or a financial comparison for the agreement.

14          Q     It's your position then that it is better to  
15     use an average unit contribution for flats of 2.7  
16     cents than it is to look at the specific cells, the  
17     specific products that are being used by Bookspan?  
18     You're more comfortable with using the average than  
19     you are the specific unit contributions for each of  
20     the products? Is that your --

21          A     Well, to arrive at the average you've had to  
22     develop each of the revenue specifics for each of the  
23     rate cells.

24          Q     Yes, but then the question becomes does it  
25     not which mail, and when your analyzing for example

1 migration, the question becomes which mail migrates?  
2 Is it the mail that's losing money or the mail that's  
3 gaining a healthy contribution for the Postal Service?  
4 Isn't that true?

5 A That's a risk we assume. That is correct.

6 Q Would you take a look at page 7 of your  
7 testimony? This time we're going to look at the  
8 bottom of the page, line 19, where you describe your  
9 company specific research that focused on Bookspan's  
10 mail volumes. See the heading there?

11 A Yes.

12 Q Then on page 8 under the section heading,  
13 lines 15 and 16 there, you say that Bookspan provided  
14 the Postal Service with counts of its standard mail  
15 letter sized and flat sized solicitation volumes for  
16 calendar years 2002 through 2004, correct?

17 A Correct.

18 Q Then lastly to complete page 11, lines 12  
19 through 15, Bookspan's solicitation flat sized mail  
20 volume has been declining at percentage rates higher  
21 than the decline of its total solicitation volume  
22 implying a slight migration from flat sized volume to  
23 letter sized volume presumably for its own business  
24 reasons, correct?

25 A Correct.

1           Q     How are you defining the term *migration*  
2     there?

3           A     In comparing the volumes for those three  
4     years that were mentioned we could see that there was  
5     a decline in the flat volume, but yet that decline was  
6     not -- some of that volume could possibly be  
7     attributed to either they're just not using flat  
8     volume or some of that volume could have been  
9     attributed to the fact that they were shifting it over  
10    to a letter sized piece.

11                So it's the movement from one shape mail  
12    piece type to another shape mail piece type.

13           Q     Right. The term *migration* seems to indicate  
14    to me that you're shifting from some volume from flats  
15    to letters. Isn't that what migration means?

16           A     In this case that's the implication that was  
17    made. Correct.

18           Q     Well, wouldn't the volume of letters have to  
19    increase in order to show some actual shifting or  
20    migration from flats to letters?

21           A     Increase relative to, but they were  
22    experiencing a decline overall.

23           Q     Well, I guess then I'd ask you if both  
24    letters and flats are declining how does that imply  
25    migration?

1           A     The flat rate volume was declining at a rate  
2     of -- I have the percentages if that's okay if I share  
3     them with you. The flat rate volume was declining in  
4     2003 in comparison to 2002 volume at about nine  
5     percent and in 2004 it declined approximately 16  
6     percent.

7                     Overall the solicitation volume was  
8     declining in 2003 at seven percent, so the flat rate  
9     volume was declining faster.

10          Q     So that's the basis for your conclusion  
11     there's migration. Does that appear in the record  
12     what you're reading from?

13          A     The percentages? No. I just took the  
14     formula that was on -- I just did some percentage  
15     numbers based on page 2 of the document that we were  
16     just in, the Appendix, I think you call it five now.  
17     Attachment 5.

18          Q     Yes. Appendix A, Attachment 5. So you're  
19     saying that because the rate of decline of flats was  
20     faster than the decline of letters that implies  
21     migration?

22          A     No. The declines the total value.

23          Q     In point of fact, though, you're really  
24     aside from asking Bookspan what they would have done  
25     or why they did it you really can't tell that can you,

1     that they're migrating from flats to letters? You can  
2     tell they're both going down and they might be going  
3     down at different rates, but you can't really know  
4     they're migrating from flats to letters can you?

5           A     You can't know for sure, but that we did put  
6     that assumption in the model. I believe that's what  
7     we referenced it to on page 1.

8           Q     Is that based on additional information  
9     obtained from Bookspan not of record in the document  
10    about the reason for their shift?

11          A     That was based on this comparison I just  
12    shared with you.

13          Q     That's all it was based on?

14          A     Yes.

15          Q     Aside from looking at the trend in the  
16    overall volume of flats did you ever look at the  
17    trends within flats by subclass? Standard regular  
18    versus standard ECR?

19          A     No.

20          Q     Would that not have been potentially  
21    interesting information and useful?

22          A     Relative to?

23          Q     Well, we just talked about how the unit  
24    contribution of the different products is vastly  
25    different from standard regular and standard ECR, and



1 we talked about that in Cross-Examination Exhibit No.  
2 2.

3 I just wondered if you looked at the  
4 percentage decline of flats overall whether you looked  
5 at it disaggregated since it has such different cost  
6 implications for the contribution to the Postal  
7 Service? Not cost implications, but contribution  
8 implications.

9 A From 2002, to 2003, to 2004? Is that what  
10 you're asking? In those years?

11 Q (Nonverbal response.)

12 A No. I'm trying to think. I don't believe  
13 that analysis was done.

14 Q Let me turn back to our Cross-Examination  
15 Exhibit No. 2 again and just confirm the contribution  
16 for ECR basic flats in the last row is 8.0 cents,  
17 correct?

18 A Correct.

19 Q Most of Bookspan's ECR letters are mailed at  
20 the nonauto basic rate aren't they, in line 7? I'm  
21 sorry. Yes. In Row 7.

22 A Row 7. Correct.

23 Q The unit contribution from nonauto basic  
24 letters is 8.6 cents isn't it?

25 A Correct.

1           Q     If an ECR basic flat were to convert from a  
2     nonauto basic letter the Postal Service would lose the  
3     eight cent contribution from the ECR flats and then it  
4     would gain the unit contribution from the letter which  
5     would be about a net of 6.6 cents let's say at a two  
6     cent discount -- 8.6 minus two cents --

7           A     Okay.

8           Q     -- is 6.6 cents, correct?

9           A     Correct.

10          Q     That would be the new unit contribution of a  
11     piece that converted there from a flat to a letter,  
12     correct?

13          A     Correct.

14          Q     That discount could rise to three cents if  
15     they had certain minimums, correct?

16          A     Correct.

17          Q     So doesn't that indicate that the Postal  
18     Service could lose the unit contribution on ECR flats  
19     that convert to ECR letters?

20          A     That's assuming that's correct.

21          Q     Could you look at your response to T2-7?  
22     This is my last question. Let me know when you have  
23     that.

24          A     Okay.

25          Q     In Section B your analysis assumes that the

1 volume of flats that migrates to letters is 17 million  
2 in 2006, 19 million in 2007 and 20 million in 2008,  
3 correct?

4 A Correct.

5 Q That's a total migration I'll ask you to  
6 accept of 56 million over those three years?

7 A Correct.

8 Q And that 56 million pieces of migrated mail  
9 is less than the 65.7 million ECR flats mailed by  
10 Bookspan in 2004, correct?

11 A Correct.

12 Q And assuming your forecast of conversion is  
13 correct every flat that migrates could be an ECR flat  
14 with an eight cent contribution couldn't it?

15 A Could be. Correct.

16 MR. OLSON: Thank you so much, Ms. Yorgey.

17 I have no further questions, Mr. Chairman.

18 CHAIRMAN OMAS: Thank you, Mr. Olson.

19 MR. OLSON: Mr. Chairman, can I just ask  
20 before I conclude to ask to have this cross-  
21 examination exhibit transcribed in the record and  
22 unless counsel objects I think I'd ask it be moved  
23 into evidence with the correction made by the witness  
24 because I believe the numbers have been verified.

25 CHAIRMAN OMAS: Yes. No objection. So

1       ordered.

2                               (The document referred to was  
3                               marked for identification as  
4                               Valpak XE-1 and was received  
5                               in evidence.)

6        //

7        //

8        //

9        //

10       //

11       //

12       //

13       //

14       //

15       //

16       //

17       //

18       //

19       //

20       //

21       //

22       //

23       //

24       //

25       //

## Valpak XE-1

Mail Category	(1)	(2)	(3)
	Bookspan TYAR Rev per Piece	Bookspan TYAR Unit Cost	Bookspan TYAR Unit Contribution
<b>Letters -- Standard</b>			
(1) Nonauto Basic	0.276	0.235	0.041
(2) Nonauto 3/5-Digit	0.249	0.220	<b>0.029</b>
(3) Auto Mixed AADC	0.228	0.094	<b>0.134</b>
(4) Auto AADC	0.216	0.085	0.131
(5) Auto 3-digit	0.193	0.081	0.112
(6) Auto 5-digit	0.176	0.070	0.106
<b>Letters -- ECR</b>			
(7) Nonauto Basic	0.180	0.094	0.086
(8) Auto Basic	0.156	0.046	0.110
<b>Non-letters -- Standard</b>			
(9) Nonauto Basic	0.394	0.351	0.043
(10) Nonauto 3/5 Digit	0.305	0.265	0.040
(11) Auto Basic	0.311	0.347	-0.036
(12) Auto 3/5 Digit	0.252	0.261	<b>-0.009</b>
<b>Non-letters -- ECR</b>			
(13) Basic Non-letter	0.178	0.098	<b>0.080</b>

Source: Response to POIR No. 1, Question 4.b.ii, Attachment 5 (App. A, pp. 4-7).

Valpak XE-2

	(1)	(2)	(3)	(4)	(5)
Mail Category	Bookspan TYAR Rev per Piece	Bookspan TYAR Unit Cost	Bookspan TYAR Unit Contribution	Bookspan FY 2004 Volume (pieces)	Bookspan FY 2004 Contribution (dollars)
<b>Letters – Standard</b>					
(1) Nonauto Basic	0.276	0.235	0.041	1,518,875	62,271
(2) Nonauto 3/5-Digit	0.249	0.220	<b>0.029</b>	58,859	1,707
(3) Auto Mixed AADC	0.228	0.094	<b>0.134</b>	7,078,780	948,557
(4) Auto AADC	0.216	0.085	0.131	12,572,357	1,646,979
(5) Auto 3-digit	0.193	0.081	0.112	60,973,641	6,829,048
(6) Auto 5-digit	0.176	0.070	0.106	4,830,798	512,065
<b>Letters – ECR</b>					
(7) Nonauto Basic	0.180	0.094	0.086	5,575,871	479,525
(8) Auto Basic	0.156	0.046	0.110	1,405,645	154,621
<b>SUBTOTAL</b>				94,014,766	10,634,772
Average, per piece				5	0.113
<b>Non-letters – Standard</b>					
(9) Nonauto Basic	0.394	0.351	0.043	29,186	1,255
(10) Nonauto 3/5 Digit	0.305	0.265	0.040	1,387,428	55,497
(11) Auto Basic	0.311	0.347	-0.036	167,112	-6,016
(12) Auto 3/5 Digit	0.252	0.261	<b>-0.009</b>	97,096,345	-873,867
<b>Non-letters – ECR</b>					
(13) Basic Non-letter	0.178	0.098	<b>0.080</b>	65,718,356	5,257,468
<b>SUBTOTAL</b>				164,398,427	4,434,337
Average, per piece					0.027

Source: Response to POIR No. 1, Question 4.b.ii, Attachment 5 (App. A, pp. 4-7).

1 MR. OLSON: If I could just give this to the  
2 witness to verify the change which she made in the  
3 volume that we had incorrect so that we know it's been  
4 corrected?

5 MR. REITER: Mr. Olson, would you also make  
6 a correction that the witness points out at the  
7 beginning which is the column heading?

8 MR. OLSON: Yes. How would you like to make  
9 that? USPS?

10 THE WITNESS: We should. Yes.

11 MR. REITER: Yes. It was in the columns  
12 with the unit costs that instead of Bookspan it's  
13 saying average, national average.

14 THE WITNESS: National average, USPS.

15 MR. OLSON: You want to say USPS national  
16 average?

17 (No response.)

18 CHAIRMAN OMAS: Thank you, Mr. Olson.

19 Now, I have a little bit of a dilemma. It's  
20 11:50 and we have one more witness. Why don't we get  
21 Mr. Plunkett sworn in, and we'll start and we'll break  
22 around 12:30.

23 Excuse me, Mr. Baker. I'm sorry. Do you  
24 have questions for this witness?

25 MR. BAKER: I wanted to ask a brief follow-

1 up question to something Mr. Olson asked this witness  
2 if I may?

3 CHAIRMAN OMAS: I'm sorry.

4 CROSS-EXAMINATION

5 BY MR. BAKER:

6 Q Ms. Yorgey, William Baker for the Newspaper  
7 Association of America. Early in his cross-  
8 examination of you Mr. Olson asked about page 70 of  
9 your testimony and I want to turn there. On lines 9  
10 and 10 there you state that the Postal Service did not  
11 include financial benefits from the multiplier affect  
12 in evaluating the financial value of this SNA.

13 That's historically correct. That was the  
14 case. When you filed the testimony that was true,  
15 correct?

16 A Correct.

17 Q Now, some new information was filed  
18 yesterday bearing on the multiplier affect, but I  
19 wanted to ask you did you amend your testimony  
20 yesterday and particularly lines 9 and 10 of this  
21 page?

22 A No.

23 Q Does your testimony on the financial impact  
24 of this NSA continue not to rely on any financial  
25 numbers from the multiplier affect?



1 A That is correct.

2 Q I will ask Mr. Plunkett about his answer to  
3 OCA-T2-6 that has been redirected to him. I just  
4 wanted to ask about the spreadsheet in there, did you  
5 happen to prepare that or did he?

6 A I prepared the spreadsheet.

7 Q As far as your testimony is concerned you're  
8 not presenting this Commission with any evidence  
9 regarding the financial affects as the multiplier  
10 affect. Is that correct?

11 A That's --

12 MR. REITER: Did you mean witness Yorgey?

13 MR. BAKER: Yes. I'm asking Ms. Yorgey  
14 about her testimony.

15 MR. REITER: Thanks.

16 THE WITNESS: That's correct. The financial  
17 impact will stand as it's recorded here.

18 MR. BAKER: Yes. I'll ask Mr. Plunkett  
19 about his question.

20 Thank you, Mr. Chairman.

21 CHAIRMAN OMAS: Thank you, Mr. Baker.

22 Is there any additional pole on cross-  
23 examination?

24 (No response.)

25 CHAIRMAN OMAS: Are there any questions from

1 the bench?

2 COMMISSIONER TISDALE: Yes. I have a couple  
3 of questions --

4 CHAIRMAN OMAS: Commissioner Tisdale?

5 COMMISSIONER TISDALE: The first one, I know  
6 that there were several questions regarding, and I'm  
7 aware that you've revised your forecast for volumes  
8 for Bookspan as of yesterday, but I'm interested in  
9 this because I'm interested in the due diligence of  
10 the Postal Service in the original negotiations.

11 In those original negotiations as I  
12 understand it your estimates, which would have been  
13 the Postal Service estimates, of volume for the first  
14 year were about 25 percent higher than Bookspan's  
15 estimates. I'm just wondering why you felt that  
16 Bookspan's estimates were the better of the two?

17 THE WITNESS: What reference is that you're  
18 pointing to stating that mine were 25 percent higher?

19 COMMISSIONER TISDALE: Well, in the original  
20 range, the information that you provided to the  
21 Commission you had projected that for the first year  
22 the range would have been from 97 to 109 million for  
23 year one.

24 THE WITNESS: Is that from the Attachment 1?

25 COMMISSIONER TISDALE: I don't have it down

1 as Attachment 1, but it was in your original estimates  
2 of Bookspan's volumes in response to POIR No. 1.

3 THE WITNESS: Actually, we submitted three  
4 sets of ranges for their estimates for forecasting  
5 their volumes and based on that forecasting, which was  
6 using the historical data, and based on what Bookspan  
7 was telling us about their business and in market  
8 research we felt that those numbers that they provided  
9 with us were reasonable.

10 COMMISSIONER TISDALE: Yours were not?

11 THE WITNESS: It was a projection with  
12 several ranges.

13 COMMISSIONER TISDALE: The least amount of  
14 difference in those ranges between your projections  
15 and Bookspan's projections was about 25 percent. Is  
16 that not correct?

17 THE WITNESS: That would be approximate just  
18 basing it on the 96 million. Is that what you're  
19 basing it on? The 96 million is the low range?

20 COMMISSIONER TISDALE: You're saying that  
21 you accept that your original projections were 25  
22 percent off? Bookspan's was more correct, the 78  
23 million?

24 THE WITNESS: Well, you have additional  
25 information that impacted that decision and that was

1 input from them telling us about the decline that was  
2 occurring, and turning out that decline if that  
3 decline continued and then information that we  
4 obtained from market research.

5 COMMISSIONER TISDALE: Okay. I've got  
6 another question that I'd like to ask you and I think  
7 you've addressed part of this, but I'm going to ask it  
8 anyway. Were you aware that the Commission provides  
9 the Postal Service with an annual report that it  
10 submits to Congress on the Postal Service's  
11 international services?

12 THE WITNESS: I'm unaware of the -- I'm  
13 aware there is a report.

14 COMMISSIONER TISDALE: Have you ever been  
15 provided with a copy of that report?

16 THE WITNESS: No.

17 COMMISSIONER TISDALE: You've never seen  
18 one, never personally looked at one?

19 THE WITNESS: I've seen them, but I have  
20 never been personally provided one for my records.  
21 No.

22 COMMISSIONER TISDALE: You have looked at  
23 one?

24 THE WITNESS: I have.

25 COMMISSIONER TISDALE: Are you aware of any

1 changes that the Postal Service has made based on this  
2 report in its projections for international mail?

3 THE WITNESS: Any changes for?

4 COMMISSIONER TISDALE: ICM?

5 THE WITNESS: The projections? No. I'm not  
6 aware.

7 COMMISSIONER TISDALE: Are you aware of any  
8 changes to the way that the ICMs are negotiated that  
9 the Postal Service might have made based on the  
10 reports coming from the Commission?

11 THE WITNESS: I believe that I referenced  
12 those in my response about the provision that we put  
13 in with the five percent and eliminating countries and  
14 weight categories based on products that weren't -- if  
15 the discounts were deeper into not covering costs  
16 those discounts were eliminated as I would in each of  
17 the agreements on an annual basis.

18 COMMISSIONER TISDALE: Were those actual  
19 changes made by the Postal Service based on that  
20 report?

21 THE WITNESS: I would say they were changes  
22 made by the Postal Service.

23 COMMISSIONER TISDALE: Because of that  
24 report?

25 THE WITNESS: I would say they were made

1 because of the business decision that we had to make  
2 to implement those.

3 COMMISSIONER TISDALE: But not based on the  
4 report from the Commission?

5 THE WITNESS: I'm not sure. I wasn't privy  
6 to all those meetings, but I'm sure that was a factor  
7 into that.

8 CHAIRMAN OMAS: Mr. Reiter, do you need some  
9 time with your witness?

10 MR. REITER: Yes, we do, Mr. Chairman. Ten  
11 or fifteen minutes.

12 CHAIRMAN OMAS: Why don't we go with ten  
13 minutes. Is that sufficient? Ten or 15? What do you  
14 need?

15 MR. REITER: I think 15 would be better.

16 CHAIRMAN OMAS: We'll come back at 12:15.

17 (Whereupon, a recess was taken from 11:58 to  
18 12:18 p.m.)

19 CHAIRMAN OMAS: Mr. Reiter, before we begin,  
20 there was something that was sort of left hanging  
21 during the Cross-Examination and I'd like to ask  
22 Witness Yorgey, in your discussions with Ms. Dreifuss  
23 earlier today, you said you wanted to compare the  
24 example she presented to you with the spreadsheets  
25 used to examine Bookspan's forecasted volumes.

1           Would you please inform the Commission of  
2     the results of that comparison and if OCA's examples  
3     are inaccurate, please provide the correct information  
4     with an explanation of how it was developed. Could  
5     you do that, please?

6           It isn't necessary now. You said you were  
7     going to compare it so you would provide to us, Ms.  
8     Yorgey.

9           THE WITNESS: Yes, I will.

10          MR. REITER: Mr. Chairman, when do you want  
11     that by?

12          CHAIRMAN OMAS: Well, as soon as we can get  
13     it.

14          MR. REITER: Okay, we'll do that.

15          CHAIRMAN OMAS: Thank you.

16          Now, Mr. Reiter, do you have any Redirect?

17          MR. REITER: Yes, I have one question, Mr.  
18     Chairman.

19          CHAIRMAN OMAS: Thank you.

20                         REDIRECT EXAMINATION

21          BY MR. REITER:

22           Q     Ms. Yorgey, Commissioner Tisdale asked you a  
23     question referencing numbers that you got from  
24     Bookspan on future volumes as well as what you  
25     referred to as your projection. Were those numbers an

1 actual independent forecast that you did? If not,  
2 could you describe what they were?

3 A No, they were not my forecast numbers. They  
4 were a trend analysis based on historical volumes that  
5 were obtained from Bookspan and those volumes were in  
6 an Excel forecast formula to provide us with a trend  
7 for the future.

8 MR. REITER: That's all I have, Mr.  
9 Chairman.

10 CHAIRMAN OMAS: Thank you, Mr. Reiter.

11 Ms. Yorgey, that completes your testimony  
12 here today. We appreciate your appearance and your  
13 contribution to our record. Thank you again, and you  
14 are excused.

15 (Whereupon, the witness was excused.)

16 CHAIRMAN OMAS: The hour is now about 12:20  
17 and I think before we begin with Mr. Plunkett why  
18 don't we take a lunch break and come back at 1:30.  
19 How's that?

20 Thank you.

21 (Whereupon, at 12:21 p.m. a luncheon recess  
22 was taken, to resume at 1:30 p.m. this same day,  
23 Wednesday, October 19, 2005.)

24 //

25 //



## A F T E R N O O N   S E S S I O N

(1:35 p.m.)

CHAIRMAN OMAS: Good afternoon.

Mr. Reiter, would you like to identify your next witness, please, so I can swear him in?

MR. REITER: Yes, Mr. Chairman. Our next witness is Michael Plunkett.

CHAIRMAN OMAS: Mr. Plunkett, would you please stand?

Whereupon,

MICHAEL K. PLUNKETT

having been first duly sworn, was called as a witness herein, and was examined and testified as follows:

CHAIRMAN OMAS: Be seated.

## DIRECT EXAMINATION

BY MR. REITER:

Q Mr. Plunkett, you have there two copies of a document entitled Direct Testimony of Michael K. Plunkett on behalf of U.S. Postal Service, designated USPS-2-1. Was this testimony prepared by you or under your direction?

A Yes, it was.

Q And if you were to testify here orally today  
would your testimony be the same?

1           A       Yes, it would.

2           MR. REITER:  Mr. Chairman, I ask that this  
3 document be entered into the record as our Direct  
4 testimony.

5           CHAIRMAN OMAS:  Is there any objection?

6                   (No audible response).

7           CHAIRMAN OMAS:  Hearing none, I will direct  
8 counsel to provide the reporter with two copies of the  
9 corrected Direct testimony of Michael K. Plunkett.  
10 That testimony is received into evidence.  However, as  
11 is our practice it will not be transcribed.

12                               (The document referred to was  
13                               marked for identification as  
14                               Plunkett Exhibit USPS-T-1  
15                               (Direct), and was received in  
16                               evidence.)

17           CHAIRMAN OMAS:  Mr. Plunkett, have you had  
18 an opportunity to examine the packet of designated  
19 written Cross-Examination that was made available to  
20 you in the hearing room today?

21           THE WITNESS:  Yes, I have.

22           CHAIRMAN OMAS:  If the questions contained  
23 in that packet were posed to you orally today, would  
24 your answers be the same as those previously provided  
25 in writing?

1 THE WITNESS: Yes, they would.

2 MR. BAKER: Mr. Chairman, Bill Baker from  
3 NAA.

4 CHAIRMAN OMAS: Identify yourself, please.

5 MR. BAKER: William Baker from the Newspaper  
6 Association of America.

7 Does the stack of designated interrogatory  
8 responses contain -- Well, which version of OCA USPS-  
9 T-2-6 does it contain?

10 THE WITNESS: It contains the revised  
11 version.

12 MR. BAKER: Mr. Chairman, I did not  
13 designate the revised version and the revised version  
14 contains substantial new, extraneous matter and it's  
15 inconsistent with representations the Postal Service  
16 made from day one of this case until yesterday  
17 afternoon.

18 I'm willing to adhere to my designation of  
19 the original answer, but I do not want the amende  
20 answer in the record, or I will simply withdraw my  
21 designation of that answer.

22 MR. REITER: I guess I'm somewhat baffled by  
23 the statement that it's inconsistent. I guess that  
24 would be something that it would be worthwhile asking  
25 questions about.

1           MR. BAKER: Mr. Chairman, the Postal Service  
2     from day one of this case has indicated that it was  
3     not relying or not presenting any financial numbers  
4     resulting from the multiplier effect. As filed  
5     yesterday, on page one of that answer at the  
6     beginning, there is a paragraph that begins for  
7     information purposes they are providing a spreadsheet  
8     which can be used to calculate financial impact of the  
9     multiplier effect.

10           It goes on to, and then it gives us some  
11    attachments I believe which are the spreadsheet. That  
12    was new material and it was not certainly requested by  
13    me, and it wasn't part of the answer, and had I known  
14    that was going to be in there at this point we would  
15    not have designated the question.

16           I might as, Mr. Reiter if it's his intent  
17    that that be offered as evidence or simply for some  
18    other status of information in the record which we  
19    often do in these proceedings for matters that are not  
20    given evidentiary status.

21           MR. REITER: First if all, I don't believe  
22    we intended by anything in that answer to change our  
23    position, and I think you heard that this morning from  
24    Ms. Yorgey when she said that we are not relying on  
25    that as part of our financial analysis.

1           Your question did say please explain how we  
2     intend to evaluate functional equivalency. There have  
3     been other questions that also have been designated on  
4     that subject concerning whether we're quantifying it  
5     or not, but this does go to the issue of how we would  
6     figure out what any given customer's multiplier effect  
7     is, and it's provided I suppose of information in that  
8     way. And since we're saying we're not relying on it  
9     as part of the analysis of the financial impact, I  
10    don't think we're far off in how we're viewing this.

11           MR. COSTICH: Mr. Chairman, Rand Costich for  
12    the OCA.

13           We also designated the original response.  
14    We would prefer that the spreadsheet any reference to  
15    it not be included in the record.

16           There is a paragraph, however, describing  
17    some new standards for evaluating functional  
18    equivalents that we would like in the record.

19           So to the extent that Mr. Baker is seeking  
20    the elimination of the spreadsheets, we support him.  
21    To the extent that there is a paragraph concerning  
22    functional equivalents, we would like to see that stay  
23    in.

24           MR. REITER: If there is some other way that  
25    we could offer it into the record I would like to do

1     that. I'm frankly surprised because, without getting  
2     into details of the substance of the discussions and  
3     the settlement discussions that we've had, this was  
4     one of the topics that came up and it was pointed out  
5     to us that we hadn't provided this, and we were  
6     attempting to respond to the parties' comments. I  
7     guess they didn't like it once they saw it or  
8     something, but we do think that it's relevant for your  
9     considerations of our case. So if there's some way we  
10    could offer it, we'd like to see that.

11           MR. OLSON: Mr. Chairman, if I could just  
12    put my oar in also, Bill Olson for ValPak.

13           We too object to this going into the record  
14    at this late date with new information.

15           I don't have my designations in front of me,  
16    and I don't think I designated it. But if I did, I  
17    withdraw the request to designate it. I don't think  
18    this is the way that the record ought to be built,  
19    taking a designation from Intervenors and then at the  
20    last minute changing everything and trying to put it  
21    into the record as evidence for the Postal Service.

22           If they had wanted this in as part of their  
23    Direct case or amended testimony, they could have  
24    done it that way, but not as our designations as  
25    Intervenors. That would be my position.

1                   MR. REITER: Consistent with that, Mr.  
2 Chairman, I'm prepared to offer it in some other way  
3 if the Commission finds it useful.

4                   CHAIRMAN OMAS: I think what we'll do, we'll  
5 withdraw the written designation and we'll let you  
6 orally cross-examine. We'll let the parties orally  
7 cross-examine.

8                   MR. REITER: Should I substitute the  
9 original version, Mr. Chairman, back into the packet?  
10 OCA-T-2-6 that was redirected to Mr. Plunkett.

11                  MR. BAKER: That would be fine with me.

12                  MR. REITER: We have no problem with that  
13 original answer. We didn't change it, we just  
14 supplemented it.

15                  CHAIRMAN OMAS: Is there any additional  
16 corrections or additions you'd like to make to those  
17 answers? Mr. Plunkett?

18                  THE WITNESS: No, there are not.

19                  CHAIRMAN OMAS: Counsel, would you please  
20 provide two copies of the corrected designated written  
21 cross-examination of Witness Plunkett to the record?  
22 That material is received in evidence and is to be  
23 transcribed into the record.

24                  //

25                  //

1 (The document referred to was  
2 marked for identification as  
3 Plunkett Exhibit USPS-T-1  
4 (Cross) and was received in  
5 evidence.)  
6 //  
7 //  
8 //  
9 //  
10 //  
11 //  
12 //  
13 //  
14 //  
15 //  
16 //  
17 //  
18 //  
19 //  
20 //  
21 //  
22 //  
23 //  
24 //  
25 //



BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Rate and Service Changes to Implement  
Baseline Negotiated Service Agreement  
with Bookspan

Docket No. MC2005-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS MICHAEL K. PLUNKETT  
(USPS-T-1)

Party

Interrogatories

Newspaper Association of America

NAA/USPS-T1-1-8  
NAA/USPS-T2-1-3 redirected to T1  
OCA/USPS-T1-6-7, 17, 19  
OCA/USPS-T2-6 redirected to T1  
VP/USPS-T1-1-2, 4-6, 8-9, 14

Office of the Consumer Advocate

OCA/USPS-T1-1-9, 11-12, 14-21  
OCA/USPS-T2-6, 12b redirected to T1

Postal Rate Commission

PRC/USPS-POIR No.1 - Q1c, POIR No.2 - Q1a,  
1b, 1c, 1d, 1eii, 3 redirected to T1

Valpak Direct Marketing Systems,  
Inc. and Valpak Dealers'  
Association Inc.

VP/USPS-T1-1-15  
  
VP/USPS-T2-9e redirected to T1

Respectfully submitted,

  
Steven W. Williams  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS MICHAEL K. PLUNKETT (T-1)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
NAA/USPS-T1-1	NAA
NAA/USPS-T1-2	NAA
NAA/USPS-T1-3	NAA
NAA/USPS-T1-4	NAA
NAA/USPS-T1-5	NAA
NAA/USPS-T1-6	NAA
NAA/USPS-T1-7	NAA
NAA/USPS-T1-8	NAA
NAA/USPS-T2-1 redirected to T1	NAA
NAA/USPS-T2-2 redirected to T1	NAA
NAA/USPS-T2-3 redirected to T1	NAA
OCA/USPS-T1-1	OCA
OCA/USPS-T1-2	OCA
OCA/USPS-T1-3	OCA
OCA/USPS-T1-4	OCA
OCA/USPS-T1-5	OCA
OCA/USPS-T1-6	NAA, OCA
OCA/USPS-T1-7	NAA, OCA
OCA/USPS-T1-8	OCA
OCA/USPS-T1-9	OCA
OCA/USPS-T1-11	OCA
OCA/USPS-T1-12	OCA
OCA/USPS-T1-14	OCA
OCA/USPS-T1-15	OCA
OCA/USPS-T1-16	OCA
OCA/USPS-T1-17	NAA, OCA
OCA/USPS-T1-18	OCA
OCA/USPS-T1-19	NAA, OCA
OCA/USPS-T1-20	OCA
OCA/USPS-T1-21	OCA
OCA/USPS-T2-6 redirected to T1	NAA, OCA
OCA/USPS-T2-12b redirected to T1	OCA

Interrogatory

PRC/USPS-POIR No.1 - Q1c redirected to T1  
 PRC/USPS-POIR No.2 - Q1a redirected to T1  
 PRC/USPS-POIR No.2 - Q1b redirected to T1  
 PRC/USPS-POIR No.2 - Q1c redirected to T1  
 PRC/USPS-POIR No.2 - Q1d redirected to T1  
 PRC/USPS-POIR No.2 - Q1eii redirected to T1  
 PRC/USPS-POIR No.2 - Q3 redirected to T1  
 VP/USPS-T1-1  
 VP/USPS-T1-2  
 VP/USPS-T1-3  
 VP/USPS-T1-4  
 VP/USPS-T1-5  
 VP/USPS-T1-6  
 VP/USPS-T1-7  
 VP/USPS-T1-8  
 VP/USPS-T1-9  
 VP/USPS-T1-10  
 VP/USPS-T1-11  
 VP/USPS-T1-12  
 VP/USPS-T1-13  
 VP/USPS-T1-14  
 VP/USPS-T1-15  
 VP/USPS-T2-9e redirected to T1

Designating Parties

PRC  
 PRC  
 PRC  
 PRC  
 PRC  
 PRC  
 PRC  
 NAA, Valpak  
 NAA, Valpak  
 Valpak  
 NAA, Valpak  
 NAA, Valpak  
 NAA, Valpak  
 NAA, Valpak  
 Valpak  
 NAA, Valpak  
 NAA, Valpak  
 Valpak  
 Valpak  
 Valpak  
 Valpak  
 NAA, Valpak  
 Valpak  
 Valpak

NAA/USPS-T1-1: Please confirm that the declining block volume discount rate structure in this NSA applies only to letter-shaped pieces, and not flats. If you cannot confirm, please explain why not. If you confirm, please explain why the declining block volume discounts are available only for letters and not flats.

NAA/USPS-T1-1 Response

Confirmed. The incentives in the Bookspan NSA are intended to increase contribution by virtue of volume increases. Arguably, although a similar approach could have been taken with Bookspan's flat mail, that mail has different cost characteristics, and would probably require different incentives and a different declining block structure. For these reasons, the agreement applies to letters only.

NAA/USPS-T1-2. Please refer to your response to OCA/USPS-T2-6 (redirected from witness Yorgey), where you state that the "multiplier effect" is a "defining characteristic of the Bookspan NSA." If there were no multiplier effect, would you have recommended that the Postal Service sign the NSA?

NAA/USPS-T1-2 Response

The multiplier effect is a key condition of the agreement. As such, negotiations proceeded with that as part of the foundation of the business relationship between Bookspan and the Postal Service. It is impossible to speculate what the result, if any, of negotiations would have been with Bookspan if that key condition did not exist, *i.e.*, if the business relationship between the Postal Service and Bookspan were different. Therefore, it is impossible for me to say if I would recommend that the Postal Service sign a hypothetical, different NSA, because I do not know if it would even exist or what its terms would be. If you are asking if I would recommend the NSA exactly as signed with the exception that I.C. were deleted from the agreement (assuming there were no multiplier effect in reality), and the agreement merely provided discounts for Standard Mail solicitation letters that produced no additional mail volume other than an incremental increase in Standard Mail solicitation letters, I would say no.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T1-3. Please refer to your response to OCA/USPS-T2-6 (redirected from witness Yorgey). What criteria will the Postal Service apply in determining whether a sufficient "multiplier" effect exists for purposes of assessing a mailer's eligibility for a functionally-equivalent NSA?

NAA/USPS-T1-3 Response

Please see my response to OCA/USPS-T1-7.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS/T1-5. Please refer to page 4 of your testimony, in which you present your views as to the usefulness of declining block volume discounts in Standard Mail. You state that "one could argue that virtually all Standard Mail is sent for discretionary purposes; thus, the prudent extension of declining block rates into Standard Mail will enable greater use of this technique, and create opportunities for further increases in contribution."

- a. Is it your position that "virtually all Standard Mail is sent for discretionary purposes"?
- b. What considerations do you apply in deciding whether a proposed extension of declining block rates into Standard Mail would be "prudent"?

NAA/USPS/T1-5 Response

- a. Yes.
- b. I would expect any such extension to result in an NSA that conforms to the pricing criteria of the Act, to make a contribution to the Postal Service's institutional costs, and to otherwise satisfy NSA specific rules as promulgated by the PRC.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T1-6. Please refer to your responses to NAA/USPS-T1-4 and OCA/USPS-T1-7(d). To be functionally-equivalent to the Bookspan NSA, must an NSA have a multiplier effect:

- a. that generates mail in at least two subclasses; and
- b. at least one subclass consists of mail other than monthly billing and payment First-Class Mail?

NAA/USPS-T1-6 Response.

Without having done a comprehensive analysis of all customers, an absolute declaration of this kind is difficult. As an abstract proposition, however, I would say yes, that it seems likely this would be the case.



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T1-7. Please refer to your response to OCA/USPS-T1-7 regarding the "qualitative" evaluation of the multiplier for a possible functionally-equivalent NSA.

- a. Is there a volume level at which a mailer generates too little volume to be considered for a functionally-equivalent NSA? Is that considered quantitatively or qualitatively?
- b. Would a mailer whose "multiplier effect" is proportionately greater than that of Bookspan's, but because of its smaller size generates less volume than the Bookspan multiplier, be similarly-situated? In other words, is the multiplier effect assessed proportionately, or by absolute number of pieces?

NAA/USPS-T1-7 Response.

- a. - b. I would be reluctant to establish an absolute floor for qualification. Furthermore, I would be reluctant to express qualifying criteria purely in volume terms. As a practical matter, the Postal Service would consider the quantity of mail that a customer sends, the subclasses it uses, its physical characteristics, and the contribution that the mail generates. As our experience with the current NSAs shows, each agreement must reflect the particulars of each mailer, including, but certainly not limited to, its volume, whether expressed in absolute or relative terms.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T1-8. Please refer to your response to OCA/USPS-T1-7, wherein you state that the proposed DMCS provision is intended to indicate that to be eligible for a functionally-equivalent NSA, a mailer would have to be engaged in a "similar business model" as Bookspan and exhibit "similar mailing behavior."

- a. Please elaborate on what would constitute a "similar business model."
- b. Does a similar business model mean that the mailer must operate pursuant to the Federal Trade Commission's Negative Option Rule?
- c. Please elaborate on what would constitute "similar mailing behavior." Include in your response whether a mailer would have to expect to have flat or declining solicitation mail volumes in the future.

NAA/USPS-T1-8 Response

- a. *I would expect that any mailer qualifying as functionally equivalent would be producing Standard Mail Regular letters for the purpose of acquiring customers. The relationship between the mailer and its customers would then generate a series of mail-based transactions that may include statements, fulfillment shipments, additional advertising material, dunning notices, and other forms of correspondence. The degree to which this relationship produced an indirect multiplier effect, as described by witness Posch with respect to Bookspan, would also be considered.*
- b. Without having done a comprehensive analysis of all customers, an absolute *declaration of this kind is difficult. It seems likely that a functionally equivalent mailer would also operate pursuant to the Negative Option Rule, due to the additional mail volume that the requirements of the rule may produce. This assumes that the mailer's business model, like Bookspan's, is to conduct the negative option transactions primarily by mail, as opposed to by telephone or internet. It is also theoretically possible that a mailer could have be operating in some other continuity-*

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

type mode not subject to the rule, but which nevertheless generates a similar multiplier effect.

- c. Similar mailing behavior is in many ways synonymous with similar business model.

There would need to be an established pattern of multiplier mailing, use of worksharing and/or automation discounts, and high mail quality standards. I would not consider flat or declining mail a prerequisite to functional equivalency. The customer's mailing trends, however, would certainly affect the likelihood that an NSA would benefit the Postal Service could be successfully negotiated. It would also, obviously, affect the specific terms of such NSA.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA  
. REDIRECTED FROM WITNESS YORGEY

NAA/USPS-T2-1. Please refer to n.13 of your testimony, in which you state that the multiplier effect "is not relied upon in estimating the financial impact of the NSA on postal finances." Please state why not.

RESPONSE:

The Postal Service believes that the financial benefits of increased letter-size Standard Mail alone is sufficient to make the NSA a worthwhile venture. Moreover, the Postal Service does not have independent verification of volumes associated with the multiplier effect.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA  
REDIRECTED FROM WITNESS YORGEY

NAA/USPS-T2-2: Please assume hypothetically that your Appendix A calculation remains as presented in your testimony but that the "multiplier effect" as described in the direct case of the Postal Service and Bookspan did not exist (i.e., that the financial impact of the "multiplier effect" is expected to be zero). Under these assumptions:

- a. Would you have recommended that the Postal Service sign the NSA?
- b. Would you testify that the Postal Rate Commission should approve the NSA?

RESPONSE:

Please see my response to NAA/USPS-T1-2.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA  
REDIRECTED FROM WITNESS YORGEY

NAA/USPS-T2-3. Although the Postal Service is not relying on the "multiplier effect" in its financial showing in this case, nonetheless has the Postal Service made any internal estimates of the amount of the "multiplier effect" that it expects from this NSA? Without discussing confidential information, please describe what, if any, such estimates have been made.

RESPONSE:

No. Also see my response to NAA/USPS-T2-1.

**OCA/USPS-T1-1.**

In PRC Op. MC2002-2, at para. 4036, the Commission stated:

The declining block rate feature requires an estimate of the baseline before rates mailing volume for comparison to the after rates mailing volume to determine whether the declining block rate feature has enticed new volume. The before rates volume has been referred to as the "anyhow volume" or the volume that Capital One would mail absent the NSA. Learning something about the declining block rate effect on volume further requires an assumption that other outside factors can be accounted for, or are not otherwise influencing volume.

- a. Please explain fully how the "Pricing Strategy" group has accounted for outside factors (other than the declining block rate) that might otherwise influence the volumes mailed by Bookspan.
- b. Please confirm that Bookspan would benefit from underestimating its volumes of solicitation letters for the period of the NSA. If you do not confirm, then please explain fully.
- c. Also confirm that one of the ways in which Bookspan would benefit from underestimating its volumes of solicitation letters would be to have discounts applied to volumes that it would have mailed anyway at undiscounted rates. If you do not confirm, then please explain fully.

**OCA/USPS-T1-1 Response**

- a. Witness Yorgey has described the analysis performed by the Postal Service during the negotiations with Bookspan. In the event that the Bookspan agreement is implemented, the Postal Service will further evaluate the empirical results to attempt to isolate the effect of declining block rate prices on Bookspan's mail volume by comparing actual volume growth with benchmarks that may include other direct marketing companies, Standard Mail more generally, and media spending by booksellers.
- b-c. Not confirmed. While a company might perceive possible benefits from "gaming" during the negotiation process, there are risks as well. For example, if the Postal Service believed, based on our research, that a company were underestimating its

planned mail volume during negotiations, then negotiations would be suspended until the issue was resolved. Having been involved in dozens of discussions with different customers over the last several years, I can attest to the fact that this specific issue has stalled several negotiations. Moreover, all companies are advised of the need to provide sworn testimony in the event that an agreement is consummated.

In this case, the interrogatory's hypothetical suggestion that Bookspan could be surreptitiously planning to vastly increase its letter solicitation mailings regardless of the existence of rate incentives is simply not credible in light of the empirical evidence regarding decreasing volume trends and a stagnant if not shrinking market. (The safeguards built into the proposed rate structure require an increase in letter solicitation volume of 20 percent over the average of the last three years before discounts can be paid.)



**OCA/USPS-T1-2.** In PRC Op. MC2002-2, at para. 4039, the Commission advised the Postal Service to "to develop an improved testing methodology for use in the future" for measuring the effects on volumes of a declining block rate.

- a. Please describe in detail all Postal Service efforts to develop an improved testing methodology.
- b. How successful have such efforts been?
- c. What is the proof of success of these efforts? Please provide any such proof.
- d. Have you and witness Yorgey employed such an improved testing methodology in preparing the Docket No. MC2005-3 filing? If so, what is the testing methodology employed? If not, why not? Please answer each question contained in part d. of this interrogatory in full detail.

**OCA/USPS-T1-2 Response**

- a. A methodology of the kind suggested by the Commission is best applied to empirical data. Of course, empirical experience with NSAs is limited. During the course of this limited experience, the Postal Service has experimented with various benchmarks for comparison purposes. For instance, during the second year of the Capital One agreement, we are comparing Capital One's First-Class Mail volume against several benchmarks: all First-Class Mail presort, all banks' solicitation volumes, and Capital One's Standard Mail. Comparing Capital One's volume to these benchmarks should provide the basis for an informed judgment regarding the effect of declining block rates on Capital One's volume. This analysis can then be modified as needed and applied to other NSA customers.
- b. With fairly limited experience, the analysis provides further support to the utility of declining block rates.
- c. The Postal Service anticipates providing a supplement to the next data collection report on the Capital One NSA.

- d. In the absence of any empirical results with Bookspan, it is not possible to replicate the same analysis. However, the insights gained in analyzing Capital One results were used to inform the Postal Service's positions during negotiations.

OCA/USPS-T1-3. Please describe all methods, techniques, sources, and reference materials used by the "Pricing Strategy" group to develop independent volume estimates for potential NSA partners.

- a. Please describe all methods, techniques, sources, and reference materials used by the "Pricing Strategy" group to corroborate volume estimates provided to the group by potential NSA partners.
- b. Please describe in detail all methods, techniques, sources, and reference materials used by the "Pricing Strategy" group to develop independent volume estimates for Bookspan for each of the three years of the NSA.
- c. Please provide all documents, spreadsheets, workpapers, calculations, and computations produced by the "Pricing Strategy" group to develop independent volume estimates for Bookspan for each of the three years of the NSA (or any other future time period).
- d. Please provide all documents, spreadsheets, workpapers, calculations, and computations produced by any other part of the Postal Service to develop independent volume estimates for Bookspan for each of the three years of the NSA (or any other future time period).
- e. Were any volume estimates for Bookspan obtained by the Postal Service from any entity outside of the Postal Service? If so, name this entity. If so, provide all documents, spreadsheets, workpapers, calculations, and computations produced by any such entity to develop independent volume estimates for Bookspan for future time periods.
- f. Please describe in detail all methods, techniques, sources, and reference materials used by the "Pricing Strategy" group to corroborate volume estimates provided to the Postal Service by Bookspan for each of the three years of the NSA (or any other future time period).
- g. Please provide all documents, spreadsheets, workpapers, calculations, and computations produced by the "Pricing Strategy" group to corroborate volume estimates provided to the Postal Service by Bookspan for each of the three years of the NSA (or any other future time period).
- h. Please provide all documents, spreadsheets, workpapers, calculations, and computations produced by any other part of the Postal Service to corroborate volume estimates provided to the Postal Service by Bookspan for each of the three years of the NSA (or any other future time period).
- i. Was any entity outside the Postal Service (e.g., TNS Media Intelligence) used to corroborate the volume estimates presented by Bookspan in this proceeding? If so, name this entity. If so, provide all documents, spreadsheets, workpapers, calculations, and computations produced by any such entity to corroborate volume estimates provided by Bookspan for future time periods.

**OCA/USPS-T1-3 Response**

If the Implication of this interrogatory is that the Postal Service should independently derive a point estimate of a potential NSA partner's volumes, I do not do agree. An independent estimate of this kind, however well developed, would still be prone to error, since it requires a precise projection far out into the future. Conversely, by conducting *sensitivity analysis on a range of plausible outcomes*, and comparing customer forecasts against such a range, we can effectively assess the future performance of an NSA under the prevailing assumptions and act accordingly.

- a. When evaluating a prospective NSA partner's volumes, we consult a number of independent sources that may be incorporated into our analysis, depending upon their apparent utility. These sources include SEC filings, stock analyst reports, trade association publications, company reports, company press releases, competitor information, and macroeconomic forecasts. In addition to published information, the Pricing Strategy group occasionally consults outside experts to aid in decision making. For instance, we have spoken with industry analysts in order to follow up on published information.
- b-d. The information sources used to evaluate Bookspan's volume projections are contained in the testimony of witness Yorgey. Techniques include spreadsheet analysis, research, and sensitivity analysis.
- e. No.
- f-h. See my response to parts b-d.
- i. No.

OCA/USPS-T1-4. Witness Yorgey testifies that: "The multiplier effect is not relied upon in estimating the financial impact of the NSA on postal finances." USPS-T-2, n. 13. She adds that: "The incentives will encourage Bookspan to mail additional solicitation letters . . . ." *Id.* at 2. If the multiplier effect is not relied upon, and providing discounts is intended to stimulate the mailing of additional solicitation letters, why didn't you recommend offering the type of discount proposed in this proceeding to any Standard Mailer to stimulate increased use of automatable Standard Mail letters?

- a. Why aren't you recommending offering the type of discount proposed in this proceeding to any First-Class Mailer of automatable solicitation letters to stimulate increased use of First-Class letters?
- b. Please specify all of the characteristics of Bookspan that make it so unique as to warrant a discount that other mailers of Standard Mail and First-Class Mail are denied.

#### **OCA/USPS-T1-4 Response**

The multiplier effect is not relied on in the financial analysis. It is quite explicitly relied on as a key condition of this NSA and for functionally equivalent NSAs.

- a. Due to the potential risks in such a structure, the Postal Service believes they should be offered at this time only where there are specific contractual provisions designed to protect the Postal Service and other ratepayers by ensuring that the negotiated incentives are employed solely by the customer, and that the Postal Service has appropriate termination rights. A general classification would not allow the same protections as those afforded by signed agreements.
- b. It is not my position that Bookspan is unique enough to warrant a pricing structure that all other mailers should be denied. The Postal Service is committed to extending functionally equivalent agreements to any similarly situated companies, as was done subsequent to the implementation of the Capital One NSA. Furthermore, I continue to hope – naively perhaps – that the transaction costs of NSAs can be reduced so as to make NSAs viable for a larger number of customers.

OCA/USPS-T1-5. Witness Yorgey states that: "An intended effect of this agreement is that the declining block rates may encourage Bookspan to increase its conversion of Standard Mail solicitation material prepared and claimed at nonletter rates to mailpieces prepared and claimed at letter-size rates." USPS-T-2, n. 14.

- a. Please explain why the Postal Service views this as a desirable outcome.
- b. Is it correct that one of the reasons the Postal Service views this as desirable is that Standard Mail letters are lower in cost and higher in contribution than Standard Mail flats? USPS-T-2 at 12, lines 1 – 2. Please explain fully any negative answer.
- c. Since automatable Standard Mail letters are lower in cost and higher in contribution than Standard Mail flats, why do you not recommend comparable discounts for other Standard Mail flats to induce them to convert to automatable Standard Mail letters? Explain fully.
- d. Is it correct that First-Class Mail one-ounce flats are higher in cost and lower in contribution than one-ounce First-Class Mail automatable letters?
  - i. If so, then why don't you recommend offering discounts to First-Class Mail one-ounce flats to induce them to convert to an automatable letter format?
  - ii. If not, then explain fully.
- e. Please provide the average attributable cost of a one-ounce First-Class flat.
- f. Please provide the average attributable cost of an automatable one-ounce First-Class letter.
- g. Please provide the average contribution to institutional costs for a one-ounce First-Class flat.
- h. Please provide the average contribution to institutional costs for an automatable one-ounce First-Class letter.
- i. For figures provided in response to parts e. through h. above, include any calculations, as well as citations to source materials.
- j. As a general matter, what are the advantages to the Postal Service of trying to induce conversion of higher cost, lower contribution flats to automatable letter format through NSAs, which involve high administrative, litigation, and transaction costs, as opposed to rectifying the current uneconomic rate structure through a straightforward change in prices that send correct price signals?

#### **OCA/USPS-T1-5 Response**

- a.-b. Standard Mail letters provide a larger contribution to institutional costs than do nonletters. Therefore, the Postal Service and all of its customers are better off as a result of this conversion.

c.-d. I have not analyzed the effect that such price changes would have at the subclass level. They are beyond the scope of the Bookspan NSA and would have to be considered within the context of an omnibus rate case.

e.-i. It is my understand that this information is available in Docket No. R2005-1.

j. Inducing conversion is not the goal of this NSA. That issue is addressed, as I indicate above, as part of the overall rate structure, which is also before the Commission at this time, but in another docket. In connection with the NSA, we have recognized as a factual predicate that Bookspan has been converting, and would—NSA or no NSA—continue to convert flats to letters, because the current rate structure already provides the incentive for it to do so. The NSA is designed to increase the volume of Standard Mail solicitation letters, and recognizes that, given Bookspan's conversion trend, the source of the increase will be both new letters and letters converted from flats. See also witness Yorgey's response to OCA/USPS-T2-10.

OCA/USPS-T1-6. Please describe in detail all of the research activities performed by the "Pricing Strategy" group to familiarize itself with the book club industry. Please describe in detail all of the research activities performed by the "Pricing Strategy" group to familiarize itself with industries for "analogous club[s]." ("Analogous club" is a phrase used in proposed DMCS section 620.11).

**OCA/USPS-T1-6 Response.**

For the most part, these activities are described in the testimony of witness Yorgey (USPS-T2, pp 7-10). In addition, my staff periodically reviews volume and revenue information on customers across a range of industries, and during the preparation of the Bookspan case this included discussions with and about companies who have business models similar to Bookspan. As none of these is expected to yield an NSA in the near future, we have not conducted systematic analysis on any one of them. Furthermore, the Postal Service considers customer discussions – which may extend over a period of months – to be one of the most valuable ways to research customers and the industries in which they operate.



OCA/USPS-T1-7. Proposed DMCS section 620.12 contains the phrase "customers demonstrating a similar or greater multiplier effect."

- a. Please define Bookspan's multiplier effect.
- b. What would an analogous club have to demonstrate for the Postal Service to find that such a club had a multiplier effect:
  - i. equal to Bookspan's multiplier effect?
  - ii. greater than Bookspan's multiplier effect?
  - iii. less than Bookspan's multiplier effect?
- c. Is this evaluation of the multiplier effect intended to be (1) quantitative or (2) qualitative? Explain fully.
- d. Please confirm that any mailer whose primary use of the mail is regular billing, e.g., a monthly bill is mailed to each customer, would demonstrate a "multiplier effect" if additional solicitation pieces produced new customers? If you do not confirm, then please explain.

#### **OCA/USPS-T1-7 Response**

- a. Bookspan's multiplier effect is explained in the testimony of witness Posch, Bookspan-T-1.
- b.-c. Evaluation of the multiplier effect is intended to be qualitative. The proposed DMCS provision was intended to indicate that to qualify for a functionally equivalent NSA, a customer would have to be engaged in a similar business model and exhibit similar mailing behavior. The phrase "or greater" was included to indicate that multiplier effect mailings at a level notably less than Bookspan's would not be viewed as functionally equivalent. It was not intended to imply quantitative measurement. Viewed strictly quantitatively, a customer's multiplier effect is theoretically a function of the frequency, class, weight, zone, subclass, shape, and perhaps other characteristics of a customer's mail. This complexity makes quantitative comparison between customers impracticable. More importantly, I do not believe that such a comparison is preferable in evaluating functional equivalency.

- d. Although the generation of regular billings could be called a multiplier effect, the reality is that most such mailers today are encouraging electronic presentment and/or payment of bills. Regardless, the single response cycle of monthly billing and payment is not the *qualitative equivalent of Bookspan's multiple response cycles of catalog mailings--more frequent than monthly--which generate either response cards or shipments of books, which in turn generate payments of invoices, and other correspondence, all by mail.*

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

240

OCA/USPS-T1-8. Is there a requirement in the NSA that Bookspan convert a specific *number of New Membership Standard Flat-size mailings* to New Membership Standard letter-size mailings? If your answer is "yes," please explain in detail and identify the required conversions by number and year, and provide a citation to the portion of the Agreement that contains the requirement.

**OCA/USPS-T1-8 Response:**

No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

241

OCA/USPS-T1-9. Is there a requirement in the proposed DMCS language that Bookspan convert a specific number of New Membership Standard Flat-size mailings to New Membership Standard letter-size mailings? If your answer is "yes," please explain in detail, identify the required conversions by number and year, and provide a citation to the DMCS provision that contains the requirement.

**OCA/USPS-T1-9 Response:**

No.

OCA/USPS-T1-11. Please turn to the "Request of the United States Postal Service for a Recommended Decision on Classifications and Rates to Implement a Baseline Negotiated Service Agreement with Bookspan," Docket No. MC2005-3, July 14, 2005. Attachment A, 620.25 sets a solicitation volume cap of 150,000,000.

- a. Why is there a volume cap at 150,000,000 pieces?
- b. Is it not likely that pieces in excess of 150,000,000 are more likely to be new mail than is the case for pieces sent substantially before the mailing of piece number 150,000,000?

**OCA/USPS-T1-11 Response:**

- a. The Postal Service and Bookspan negotiated an agreement intended to produce net financial gains on both sides given shared expectations about the future.  
  
Both parties concede their imperfect ability to predict the future, and recognize that unforeseen circumstances could alter the business environment in ways that would subvert the intent of that agreement. The 150,000,000 piece was agreed to as an indicator that such changes warrant a reevaluation of our mutual expectations.
- b. Not necessarily, though I have not assigned relative probabilities to specific volume mail pieces likely to arise out of this agreement. See also my response to part a.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

243

OCA/USPS-T1-12. Please turn to the "Request of the United States Postal Service for a Recommended Decision on Classifications and Rates to Implement a Baseline Negotiated Service Agreement with Bookspan," Docket No. MC2005-3, July 14, 2005. Attachment A, 620.22, contains a "Volume Commitment Adjustment Mechanism."

- a. Would this adjustment procedure apply to entities acquired by Bookspan? If not, why not?
- b. Would this adjustment procedure apply to mailings conducted under the provisions of 620.11; that is, mailings conducted by entities in which Bookspan holds controlling shares, by vendors, or in conjunction with strategic business alliances? If not, why not?

**OCA/USPS-T1-12 Response:**

The procedure applies to all mail sent under the agreement.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

244

OCA/USPS-T1-14. Please refer to the August 19, 2005, DMNews, on the website [www.dmnews.com/cgi-bin/index.cgi](http://www.dmnews.com/cgi-bin/index.cgi), and the article entitled "USPS Ramps Up for More NSAs." The article states "Plunkett said several things that began as NSA discussions mutated into classification changes." Please identify and describe the classification changes that began as NSA discussions.

OCA/USPS-T1-14.

The co-palletization experiments (MC2002-3 and MC 2004-1) began as discussions surrounding a possible NSA to accomplish the same purpose. In addition, there are several product classification changes under consideration that began as NSA discussions. These have yet to be approved for filing.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

245

OCA/USPS-T1-15. Please refer to the PostCom website at [www.postcom.org/public/general/presentations.html](http://www.postcom.org/public/general/presentations.html), referencing the August 17-18, 2005 MTAC Presentations, at the seventh bulleted item, "Negotiated Service Agreements (NSAs)."

- a. At page 2 of the presentation, it states "Business results exceeding expectations." Please identify and summarize the business results exceeding expectations. How do you know these results would not otherwise have occurred?
- b. At page 5 of the presentation, in reference to the Postal Service's customers, it states "Concerns still exist." Please discuss the customer concerns that still exist.
- c. At page 7 of the presentation, it states "Declining block rate on SM with a multiplier effect, and superior address quality." Please cite the specific sections of the NSA and the proposed DMCS requiring superior address quality on the part of Bookspan.

OCA/USPS-T1-15 Response.

- a. Please see Docket No. MC2002-2, Data Collection Report for Sept. 01, 2003 to Sept. 30, 2004 which shows the results of the first 13 months of the Capital One NSA. As none of the other agreements have been implemented for a year, results are still preliminary. In the case of Capital One, the results were well beyond what was projected in MC2002-2. It is not even theoretically possible to prove beyond all doubt that this would not have occurred. Conversely, one could even argue that without the NSA Capital One's volumes would have fallen considerably, meaning that the reported benefits underestimate the financial value. As was demonstrated, Capital One's mail volume grew substantially during a time when First-Class Mail volume was otherwise declining. As there were no other observed changes in Capital One's business environment, I conclude this is a reasonable *estimate* of the NSA value.



b. Customers continue to express a number of concerns including:

- They are required to expose information about their competitive practices in a public forum.
- Overall progress is too slow.
- Entities with no economic stake in the outcome of litigation are allowed to lengthen the duration and increase the costs of litigation.
- They are exposed to the risk that the regulator can impose new contract terms over and above those negotiated with the Postal Service.
- The time and expense associated with litigation is excessive.
- Customers discussing baseline agreements are concerned that they will bear an inordinate expense to pave the way for their competitors to attain functionally equivalent agreements.

c. My presentation described the general prerequisites for this kind of agreement.

There are no specific clauses in the contract specifying requirements.

OCA/USPS-T1-16. Please refer to your response to POIR No. 1, Question 1(c), where it states "However, witness Yorgey's analysis of the book industry as described in her testimony does not indicate that any particular portion of Bookspan's mail is likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs." Also, please refer to the testimony of Witness Thress (USPS-T-7) in Docket No. R2005-1, at page 99, Table 17, Econometric Demand Equitation for Standard Regular Mail.

- a. In your view, is any particular portion of Bookspan's mail likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs? Please explain.
- b. If Bookspan's mail is not likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs, please explain why the Postal Service did not propose a general classification featuring discounts for the subclass.
- c. Please confirm that Bookspan's TYAR elasticity of demand for its Standard Regular Mail letter-size pieces is  $-2.767 \left( \frac{(105 \text{ million} - 78 \text{ million})}{(78 \text{ million} + 105 \text{ million}) / 2} \right) / \left( \frac{(\$0.178 - \$0.198)}{(\$0.198 + \$0.178) / 2} \right)$ . (See Attachment OCA-1, below, for the calculation of Bookspan's Average Revenue per Piece of \$0.198 in the TYBR and \$0.178 in the TYAR.) If you do not confirm, please explain and provide your estimate of Bookspan's elasticity over the range of prices from \$0.178 to \$0.198.
- d. In Docket No. R2005-1, please confirm that the postage price elasticity of demand for Standard Regular Mail is -0.267. If you do not confirm, please explain.

OCA/USPS-T1-16 Response

- a. In general, I would describe Bookspan's mail as being typical of – though not necessarily perfectly representative of – the subclasses to which it belongs.
- b. While Bookspan's mail volume may not exhibit demand characteristics that differ fundamentally from its subclass(es), it does not necessarily follow that the demand characteristics all customers in Bookspan's subclass(es) are perfectly uniform as this interrogatory seems to suggest. Moreover, when considering a decision to propose a classification change, the Postal Service must consider other criteria beyond demand characteristics. See also my response to OCA/USPS-T1-4.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

c. Confirmed that one could calculate Bookspan's price elasticity in this way.

See also my response to part d.

d. Confirmed. However, the probability that any specific customer using Standard Regular Mail has a price elasticity of -0.267 is remote. As is readily apparent, the users of a subclass as large as Standard Regular Mail are a large, heterogeneous, and changing collection of entities operating in virtually every industry in the United States. If one were to attempt to estimate the price elasticity for any of those companies using techniques of the type employed by witness Thress (which take into account many more factors than the simplistic calculation applied in your question), the results could vary substantially from the average. The demand functions used in witness Thress' models are a reliable way to explain how a large and diverse population of customers will respond to price changes *on average*. This does not necessarily mean that such analysis can be used to draw meaningful conclusions about the behavior of specific customers.

**ATTACHMENT OCA-1**

Base Year 2004

Standard Mail Regular LETTER-SIZE Revenue per piece

Bookspan average (FY 2004)					
Mail Category		Rev/pc	Volume	Revenue	
Nonauto Basic	\$	0.262	1,518,805	\$ 398,179	1.7%
Nonauto 3/5-Digit	\$	0.236	58,859	\$ 13,882	0.1%
Auto Mixed AADC	\$	0.216	7,078,780	\$ 1,529,430	8.1%
Auto AADC	\$	0.205	12,572,357	\$ 2,575,943	14.4%
Auto 3-digit	\$	0.183	60,973,641	\$ 11,138,540	70.1%
Auto 5-digit	\$	0.167	4,830,798	\$ 805,554	5.6%
<b>Total</b>			<b>87,033,240</b>	<b>\$ 16,461,528</b>	<b>100%</b>
<b>Revenue per piece</b>				<b>\$ 0.189</b>	

Standard Mail ECR LETTER-SIZE Revenue per piece

Mail Category		Rev/pc	Volume	Revenue	
Nonauto Basic Letters	\$	0.171	5,575,871	\$ 952,919.00	79.9%
Auto Basic Letters	\$	0.148	1,405,645	\$ 208,620.00	20.1%
<b>Total</b>			<b>6,981,516</b>	<b>\$ 1,161,539</b>	<b>100%</b>
<b>Revenue per piece</b>				<b>\$ 0.166</b>	
<b>Average Revenue Letter-Size piece (FY 2004)</b>				<b>\$ 0.187</b>	

Source: USPS-T-2 (Yorgey), Appendix A, Page 3.

Attachment OCA-1, page 2

Assumed R2005-1 Rate Increase 5.4%  
 TYBR 2006  
 Standard Mail Regular LETTER-SIZE Revenue per piece

Bookspan average (TYBR 2006)			
Mail Category	Rev/pc	Volume	Revenue
Nonauto Basic	\$ 0.276	1,260,087	\$ 348,191
Nonauto 3/5-Digit	\$ 0.249	48,833	\$ 12,139
Auto Mixed AADC	\$ 0.228	5,872,959	\$ 1,337,423
Auto AADC	\$ 0.216	10,430,744	\$ 2,252,555
Auto 3-digit	\$ 0.193	50,587,208	\$ 9,740,191
Auto 5-digit	\$ 0.176	4,007,905	\$ 704,424
<b>Total</b>		<b>72,207,736</b>	<b>\$ 14,394,923</b>
<b>Revenue per piece</b>			<b>\$ 0.199</b>

## Standard Mail ECR LETTER-SIZE Revenue per piece

Mail Category	Rev/pc	Volume	Revenue
Nonauto Basic Letters	\$ 0.180	4,626,060	\$ 833,288
Auto Basic Letters	\$ 0.156	1,166,203	\$ 182,430
<b>Total</b>		<b>5,792,264</b>	<b>\$ 1,015,718</b>
<b>Revenue per piece</b>			<b>\$ 0.175</b>
<b>Average Revenue Letter-Size piece (TYBR 2006)</b>			
			<b>\$ 0.198</b>

	Volume FY 2006
<b>Before Rates (BR)</b>	
New Membership Std letter-size	78,000,000
New Membership Std Flat-size	137,000,000
<b>Total</b>	<b>215,000,000</b>
<b>After Rates (AR)</b>	
New Membership Std letter-size	105,000,000
New Membership Std Flat-size	120,000,000
<b>Total</b>	<b>225,000,000</b>

Source: USPS-T-2 (Yorgey), Appendix A, Page 2.

Attachment OCA-1, page 3

Assumed TYAR Discount \$ 0.02  
 TYAR 2006  
 Standard Mail Regular LETTER-SIZE Revenue per piece

Bookspan average (TYAR 2006)			
Mail Category	Rev/pc	Volume	Revenue
Nonauto Basic	\$ 0.276	1,696,271	\$ 468,719
Nonauto 3/5-Digit	\$ 0.249	65,736	\$ 16,341
Auto Mixed AADC	\$ 0.228	7,905,907	\$ 1,800,377
Auto AADC	\$ 0.216	14,041,386	\$ 3,032,286
Auto 3-digit	\$ 0.193	68,098,164	\$ 13,111,795
Auto 5-digit	\$ 0.176	5,395,257	\$ 948,262
<b>Total</b>		<b>97,202,722</b>	<b>\$ 19,377,780</b>
<b>Revenue per piece</b>			<b>\$ 0.199</b>

## Standard Mail ECR LETTER-SIZE Revenue per piece

Mail Category	Rev/pc	Volume	Revenue
Nonauto Basic Letters	\$ 0.180	6,227,389	\$ 1,121,734
Auto Basic Letters	\$ 0.156	1,569,889	\$ 245,578
<b>Total</b>		<b>7,797,278</b>	<b>\$ 1,367,312</b>
<b>Revenue per piece</b>			<b>\$ 0.175</b>
<b>Average Revenue Letter-Size piece, Less Discount (TYAR 2006)</b>			
			<b>\$ 0.178</b>

Elasticity of Bookspan, TYAR -2.767

TYBR Letter-Size Volume 78,000,000  
 TYAR Letter-Size Volume 105,000,000

TYBR Average Revenue per piece \$ 0.198  
 TYAR Average Revenue per piece \$ 0.178

OCA/USPS-T1-17. Please refer to your response to POIR No. 1, Question 1(c), where it states, "However, witness Yorgey's analysis of the book industry as described in her testimony does not indicate that any particular portion of Bookspan's mail is likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs." Also, please refer to the response of witness Posch to OCA/USPS-T1-1, where it states, "There is only one category of marketer that produces this 'massive multiplier effect'—clubs operating pursuant to the Federal Trade Commission's Negative Option Rule. See 16 C.F.R. § 425.1."

- a. Please describe and provide any analysis of the volumes, revenues and costs, or any other financial modeling conducted by the Postal Service concerning negative option marketers operating pursuant to the FTC's Negative Option Rule.
- b. Please explain why the Postal Service did not propose a time-limited experimental niche classification for negative option marketers operating pursuant to the FTC's Negative Option Rule.
- c. Assuming the Bookspan NSA is not recommended by the Commission, and the 5.4 percent rate increase proposed in Docket No. R2005-1 is implemented by the Postal Service, please confirm that Bookspan's TYBR 2006 elasticity of demand for its Standard Regular Mail letter-size pieces is -0.4688  $((78 \text{ million} - 80 \text{ million}) / ((80 \text{ million} + 78 \text{ million}) / 2)) / 0.054$ , as shown in the table below. If you do not confirm, please explain and provide your estimate of Bookspan's elasticity for TYBR 2006 for the assumptions given.

**ELASTICITY OF BOOKSPAN**  
**Test Year Before Rates 2006**  
(Assumes 5.4 percent rate increase, without NSA)

Elasticity of Bookspan, TYBR 2006	-0.4688 [1]
TYBR Letter-Size Volume, before 5.4% rate increase	80,000,000 [2]
TYBR Letter-Size Volume, after 5.4% rate increase	78,000,000 [3]
TYBR Change in Rates, R2005-1	5.4% [4]

Notes & Sources:

[1] =  $(([3] - [2]) / (([2] + [3]) / 2)) / [4]$

[2] Response of Bookspan Witness Epp to POIR No. 1, Question 4(a), at 2.

[3] Bookspan -T-2 (Epp,) at 11.

[4] Docket No. R2005-1

OCA/USPS-T1-17 Response

- a. The Postal Service has not attempted to isolate or analyze customers based on whether they are subject to this rule.
- b. The question does not state what the point of such an experiment would be, but please see my response to part (a) above and the Postal Service's response to OCA/USPS-8.
- c. Not confirmed. See my response to OCA/USPS-T1-16 part d.



OCA/USPS-T1-18. Please refer to the response to OCA/USPS-3(d), where it states that "many customers' mail volumes would be expected to grow independently of any price incentive to do so."

- a. Please explain how the Postal Service determined that Bookspan is not such a customer whose mail volumes would be expected to grow independently of any price incentive to do so. Please provide all financial and other analysis supporting your explanation.
- b. Please confirm that the explanation and analysis provided in response to subpart a. of this interrogatory is to be applied to functionally equivalent NSAs. If you do not confirm, please explain.
- c. Please confirm that the explanation and analysis provided in response to subpart a. of this interrogatory could be applied to negative option marketers operating pursuant to the Federal Trade Commission's Negative Option Rule. See 16 C.F.R. § 425.1. If you do not confirm, please explain.

OCA/USPS-T1-18 Response

- a. The analysis and research that support this conclusion are embodied in the testimony of witness Yorgey (USPS-T-1).
- b. Confirmed that in considering a functionally equivalent NSA with another mailer, the Postal Service would analyze, as it did here, whether the customer's mail volumes would be expected to grow independently of any price incentive to do so.
- c. Confirmed to the extent that any such company conforms to the requirements for functional equivalence, which are yet to be determined. The fact that a customer operates under the negative option rule does not seem to have a particular bearing on whether the customer's mail volumes would grow independently of a price incentive. That would seem to depend more on the mailer's product line, other particulars of its business, and other market factors that would have to be examined. See also my response to NAA/USPS-T1-8(b).

OCA/USPS-T1-19. Please refer to your response to OCA/USPS-T1-7(b)-(c).

- a. Please identify and describe the objective standards to be used for evaluation of the multiplier effect for a functionally equivalent NSA assuming current postal personnel would no longer conduct the evaluation.
- b. Please confirm that in the absence of objective standards for evaluation of the multiplier effect for a functionally equivalent NSA, the use of the multiplier effect as a qualification for potential mailers seeking a functionally equivalent NSA is arbitrary. If you do not confirm, please explain.
- c. Please define the phrase "multiplier effect mailings at a level notably less than Bookspan's."
- d. Your response states, "a customer's multiplier effect is theoretically a function of the frequency, class, weight, zone, subclass, shape, and perhaps other characteristics of a customer's mail. This complexity makes quantitative comparison between customers impracticable." If quantitative comparison between customers is impracticable, please confirm that use of the multiplier effect as a qualification for potential mailers seeking a functionally equivalent NSA is arbitrary. If you do not confirm, please explain.

OCA/USPS-T1-19 Response

- a. I have described the qualitative criteria that I think ought to be applied when considering functionally equivalent NSAs. If I were to be replaced, I would expect my eventual successor to apply his/her judgment to improve upon my admittedly limited wisdom.
- b. Not confirmed. I do not accepted the stated premise of the question that objective standards are absent or the implied premise of the question that for a standard to objective, it must be quantitative.
- c. This phrase refers to the fact that direct mail advertising often leads to future mail based transactions between a mailer and its customers (for instance a customer may join an organization which then sends an annual newsletter to its members). Arguably any such cause and effect relationship could be termed a multiplier effect; however, it is notably not on the level of Bookspan's.

- d. Again, the question implies that any decision that cannot be made quantitatively is necessarily arbitrary. I do not agree.

OCA/USPS-T1-20. Please refer to your response to OCA/USPS-T1-1, where it states, "In the event that the Bookspan agreement is implemented, the Postal Service will further evaluate the empirical results to attempt to isolate the effect of declining block rate prices on Bookspan's mail volume by comparing actual volume growth with benchmarks that may include other direct marketing companies, Standard Mail more generally, and media spending by booksellers."

- a. Please confirm that in order to evaluate the results of declining block rate prices (discounts) on Bookspan's volumes, the Postal Service must calculate the contribution from new letter volume less the foregone revenue associated with discounts given to letter volume that would have been sent in the absence of the discounts. If you do not confirm, please explain.
- b. Please explain how the Postal Service plans to distinguish Bookspan's new letter volumes induced by the discounts from letter volumes that would have been mailed in the absence of the discounts. Please show all calculations and provide citations to sources.

OCA/USPS-T1-20 Response

- a. Confirmed.
- b. The Postal Service will attempt to estimate what Bookspan's volumes would have been after the first reporting period is complete. At that time we will have the benefit of experience, and will know which – if any – unforeseeable events would cause our expectations to change.

OCA/USPS-T1-21. In PRC Op. MC2002-2, at para. 9025, the Commission states:  
[9025] Witness Plunkett testifies that the Postal Service will use other data not  
enumerated in the Data Collection Plan to assess the success of the [Capital  
One] NSA.

Data regarding potential factors such as movements in interest rates, GDP, unemployment rates, bankruptcy rates, and other macroeconomic variables which might help explain deviations from the baseline are always readily available. Trends specific to the broader credit card industry can be gleaned from trade press reports, and similar research sources. Certainly the Postal Service will be closely monitoring potential factors such as the overall rates of adoption of electronic bill presentation and payment.  
Tr. 4/767-8

Please describe and discuss (in more detail than the response to OCA/USPS-T1-2(b) – (c)) the Postal Service's work to date in assessing the success of the Capital One NSA using data not enumerated in the Data Collection Plan recommended by the Commission.

OCA/USPS-T1-21 Response.

In addition to Capital One's mail volume, the Postal Service researches the mail volume and marketing practices of the major credit card banks. When the fiscal year is ended, we expect to compare Capital One's actual mail volumes with a number of different possible benchmarks based on research and analysis that is still ongoing. In doing so, we expect to establish a better basis for assessing the impact of the price incentives, than is available from a before rates forecast completed months – if not years – before. I should point out that this will not create "certainty" nor will it eliminate the use of judgment in evaluating results.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE  
REDIRECTED FROM WITNESS YORGEY

259

**OCA/USPS-T2-6.** Please refer to the Request at Attachment A, Section 620.12 of the proposed Domestic Mail Classification Schedule (DMCS).

- a. For each year of the Bookspan NSA, please quantify the baseline multiplier effect to be used to evaluate functionally equivalent NSAs.
- b. Please explain how the Postal Service intends to evaluate the functional equivalency to the Bookspan NSA of any proposed NSAs "involving declining block rates of Standard Mail letter solicitations for book or analogous club memberships" in the absence of quantifying the baseline multiplier effect.
- c. Does the Postal Service have rules, or does it intend to propose rules, to implement proposed Section 620.12 that are analogous to DMM § 709.1.0, General Requirements for Negotiated Service Agreements (NSAs). Please explain.

RESPONSE:

a.-c. The baseline multiplier effect is a defining characteristic of the Bookspan NSA, and the Postal Service considers the existence of a multiplier effect to be a necessary precondition for customers seeking to be candidates for functionally equivalent NSAs. However, the multiplier effect must be taken together with the other customer specific variables that the Postal Service must consider when negotiating with an NSA customer. Quantifying a specific required multiplier effect would create a binding constraint that would impede future negotiations and might exclude otherwise worthy customers from consideration. Given that all functionally equivalent agreements must be litigated prior to implementation, adequate opportunity for review and analysis is ensured.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
October 18, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

1. Please refer to USPS-T-2, Section IV. A. (pages 7-10) which describes the Postal Service's evaluation of Bookspan's before rates Standard Mail volume forecasts as comparable to that performed in evaluating previous NSAs. Also please refer to the May 18, 2005 Revised Declaration of Michael K. Plunkett in support of the Postal Service's Reconsideration Memorandum in Docket No. MC2004-3.
  - c. In Section E of his declaration, Plunkett describes the development of a demand function for total marketing mail based on the total number of accounts. Did the Postal Service derive a demand function specific to Bookspan's (or its industry's) mail volume based on the number of memberships (or a similar measure)? If so, please provide the model specification and results, including diagnostic statistics. Also please include supporting documents and electronic workpapers explaining the selection of the functional form, the development of the model specification, and the data used.

RESPONSE:

1.c. No, a demand function specific to Bookspan's total marketing mail volume was not derived based on number of memberships or similar measures. When analyzing credit card banks – particularly those who use First-Class Mail for customer acquisition – it was important to isolate the factors that influenced the volume of mail used to solicit customers. In the Bank One case, the declining block rates offered to that customer segment were designed to stimulate growth in "marketing" volume as opposed to statement volumes, demand for which is generally regarded as inelastic. With Bookspan, the Postal Service expects that marketing volume would be positively correlated with growth (or decline) in the number of customers, as would generally appear to be true for most business mailers. However, witness Yorgey's analysis of the book industry as described in her testimony does not indicate that any particular portion of Bookspan's mail is likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs.



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

1. Please refer to Request of the United States Postal Service for a Recommended Decision on Classifications and Rates to Implement a Baseline Negotiated Service Agreement with Bookspan, Attachment A (proposed Domestic Mail Classification Schedule language). Section 620.11 states in part: "Eligible Standard Mail under this section is defined as letter shaped pieces sent by Bookspan for the purposes of soliciting book club membership of persons who are not current subscribers to the book club or clubs Bookspan is promoting in the mailing or to book club members whose membership is expiring."

Also, please refer to Request of the United States Postal Service for a Recommended Decision on Classifications and Rates to Implement a Baseline Negotiated Service Agreement with Bookspan, Attachment F (Negotiated Service Agreement Between the United States Postal Service and Bookspan). Section I.A. states in part: "In the last three government fiscal years, Bookspan mailed an average of 87 million Standard Mail letters to consumers who were not the subscribers to the book club or clubs Bookspan was promoting in the mailing and to book club members whose membership was expiring. For the purposes of this agreement, the term 'Bookspan Letter Mail Solicitations' shall mean Standard Mail solicitation letters sent by Bookspan, by entities in which Bookspan holds controlling shares, and by their vendors on their behalf."

Finally, please refer to Response of Bookspan to Presiding Officer's Information Request No. 1, August 10, 2005, Response 4(c) states in part: "Finally, and perhaps most importantly, the volumes set forth below include letter mail sent by Bookspan to existing members and, therefore, ineligible for the NSA."

The three sources cited above appear inconsistent in describing what types of Bookspan's Standard Mail letters are eligible for mailing under the terms and conditions of the Negotiated Service Agreement. For example, the response to POIR No. 1 part 4(c) infers that "existing" members of a Bookspan book club are not eligible to receive mailings under the terms and conditions of the Negotiated Service Agreement. The DMCS language appears to describe mailings to existing customers. The contract does not place a restriction on mailing to existing customers. As another example, the contract appears to limit mailing to "solicitations" type mailings. However, it is not clear whether a mailing "to book club members whose membership is expiring," as written in the proposed DMCS language, must be a solicitations type mailing.

- a. If there is a conflict between the requirements appearing in the Domestic Mail Classification Schedule language (Request, Attachment A) and the requirements appearing in the Negotiated Service Agreement contract (Request, Attachment F), how is the conflict resolved? Does the Domestic Mail Classification Schedule language take precedence? Please explain.
- b. Please describe the characteristics of Bookspan's Standard Mail that is eligible for mailing under the terms and conditions of the Negotiated Service Agreement. Is eligible Standard Mail limited to "solicitations" mail? Please describe the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

characteristics of Bookspan's Standard Mail that is not eligible for mailing under the terms and conditions of the Negotiated Service Agreement.

c. Please confirm that "book club members whose membership is expiring" are existing members of a Bookspan book club. If this is a correct interpretation, will such existing members be eligible to receive Standard Mail under the terms of the Negotiated Service Agreement? At what point in time is the status of a member of a Bookspan book club changed from an "existing member" to an existing member "whose membership is expiring?"

d. Please confirm that Bookspan uses Standard Mail for solicitations to more than one book club. If this is a correct assumption, please indicate whether existing members of one book club may receive Bookspan solicitations for a second (unrelated) book club under the terms of the Negotiated Service Agreement.

e. Witness Posch states that: "A current member receives 16 to 19 Standard Mail letters per year offering the cycle's Featured Selection as well as other club selections and offerings." Bookspan-T-1 at 4.

- i. Under what circumstances do these mailings solicit "book club membership of persons who are not current subscribers to the book club or clubs Bookspan is promoting in the mailing?"
- ii. Under what circumstances are these mailings eligible for mailing under the terms of the Negotiated Service Agreement?

**RESPONSE:**

a. There is no conflict between the requirements in the contract and the DMCS language. First, it is not clear why a reader would infer that the answer to POIR 1, question 4(c) was a comment on the terms of the contract. Rather, it was a response to a Commission request for Bookspan's historical Standard Mail volumes in 2001 and 2002. In no way did witness Epp "[imply] that 'existing' members of a Bookspan book club are not eligible to receive mailings under the terms and conditions of the Negotiated Service Agreement." Rather, he provided a caveat for the very purpose of

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

*differentiating the volumes he presented in response to the Commission's question from those subject to the NSA.*

Second, the DMCS language *limits all discounts to Standard Mail solicitation letters*. A mailing *'to book club members whose membership is expiring'* would not be eligible unless it is composed of Standard Mail letters soliciting book club membership. Any lack of clarity that might be perceived in that regard could be removed by changing *"to book club members whose membership is expiring"* to *"of book club members whose membership is expiring."* The Postal Service would have no objection if the Commission recommended the change of "to" to "of" in its recommended decision.

b. Eligible mail must be sent Standard Mail. It must be letter shaped. It must solicit membership in a book club from among non-subscribers of that particular book club or from members whose membership in that club is expiring. In the latter regard, it must be a solicitation letter comparable to those sent to nonmembers.

c. Although the second question was worded in terms of recipients' "eligibility" to receive mail, the real import is whether such mail is counted in the volumes and *potentially eligible for discounts under the NSA*. If that is what the next question meant to address—Will Standard Mail solicitation letters sent to existing members whose membership is expiring be counted and eligible?—the answer is yes.

Bookspan will provide an answer to the question of at what point in the membership cycle they solicit renewals. Presumably, Bookspan judges what the appropriate timing is to maximizing renewals. Since maximization of renewals benefits the Postal Service as well, the Postal Service did not see the need for the agreement to

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

have defined or restricted the timing of renewal solicitations, which may or may not be the implication of the question.

d. Bookspan's answer will address the use of solicitation mailings for various book clubs, but it is the Postal Service's understanding that it uses them for more than one book club. Otherwise, the issue of cross-solicitation would not have come up and would not be specifically mentioned in the agreement. In that regard, we come to the answer to the final question in this part, which we interpret to mean: "Are Standard Mail solicitation letters sent to members of one book club to join another second (unrelated) book club eligible for be counted and potentially receive discounts under the terms of this agreement?" The answer to that question is yes.

e. ii. Under no circumstances are the periodic club mailings offering the cycle's Featured Selection as well as other club selections and offerings eligible to be counted and possibly receive discounts under the agreement, even if they contain solicitations to renew membership in that club or to join other clubs. The purpose of the agreement is to generate *additional* solicitation volumes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2**

3. In Attachment 1 to the response to POIR No. 1, witness Yorgey presents the results of the Postal Service's estimates of Bookspan's before rates volumes using monthly, quarterly, and yearly trend analysis. Also, the response to POIR No. 1 question 1(c) states that the Postal Service's analysis "does not indicate that any particular portion of Bookspan's mail is likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs."
- a. Please confirm that Table 1 below shows the financial impact of the proposed NSA on the Postal Service as estimated by USPS-T-2, Appendix A, with the following modifications (presented in Attachment A):
- Before rates volumes are set equal to the results of the Postal Service's yearly trend forecast (response to POIR No. 1, Attachment 1, page 1 of 3), adjusted downward for the response to the R2005-1 proposed rate increase.
  - Bookspan's after rates volumes are estimated using the elasticities of Standard Regular and ECR, weighted by Bookspan's FY 2004 "new member solicitation" letter volumes.
  - All increased volume in response to the discounts is assumed to be new volume (i.e., not at the expense of reduced flats volume).

Table 1.

	FY2006	FY2007	FY2008	Total
(1) Contribution from new Standard letter mail	\$ 340,830	\$ 345,453	\$ 348,492	1,034,776
(2) Contribution from Standard non-letter mail converted to Standard letter mail	\$ -	\$ -	\$ -	-
(3) Total New Contribution	\$ 340,830	\$ 345,453	\$ 348,492	1,034,776
(4) Total Discount Exposure	\$ 156,833	\$ 288,380	\$ 139,927	585,140
(5) Total Incremental Discounts	\$ 66,458	\$ 69,665	\$ 72,873	208,996
(6) Total USPS Value	\$ 117,539	\$ (12,592)	\$ 135,693	\$ 240,640

- b. Please confirm that Table 2 below presents the financial impact of the proposed NSA on the Postal Service as estimated by USPS-T-2, Appendix A, modified as described in subpart (a) above, except using the results of the Postal Service's quarterly trend forecast (response to POIR No. 1, Attachment 1, page 2 of 3). The calculations are presented in Attachment B.

Table 2.

	FY2006	FY2007	FY2008	Total
(1) Contribution from new Standard letter mail	\$ 366,336	\$ 573,668	\$ 594,089	1,534,093
(2) Contribution from Standard non-letter mail converted to Standard letter mail	\$ -	\$ -	\$ -	-
(3) Total New Contribution	\$ 366,336	\$ 573,668	\$ 594,089	1,534,093
(4) Total Discount Exposure	\$ 298,781	\$ 501,953	\$ 423,823	1,224,558
(5) Total Incremental Discounts	\$ 71,431	\$ 173,532	\$ 168,256	413,219
(6) Total USPS Value	\$ (3,877)	\$ (101,817)	\$ 2,010	\$ (103,684)

- c. Please confirm that Table 3 below presents the financial impact of the proposed NSA on the Postal Service as estimated by USPS-T-2, Appendix A, modified as described in subpart (a) above, except using the results of the Postal Service's monthly trend forecast (response to POIR No. 1, Attachment 1, page 3 of 3). The calculations are presented in Attachment C.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Table 3.

	FY2006	FY2007	FY2008	Total
(1) Contribution from new Standard letter mail	\$ 385,194	\$ 629,038	\$ 674,509	1,688,741
(2) Contribution from Standard non-letter mail converted to Standard letter mail	\$ -	\$ -	\$ -	-
(3) Total New Contribution	\$ 385,194	\$ 629,038	\$ 674,509	1,688,741
(4) Total Discount Exposure	\$ 403,734	\$ 820,655	\$ 885,710	2,110,100
(5) Total Incremental Discounts	\$ 75,108	\$ 190,281	\$ 211,569	476,959
(6) Total USPS Value	\$ (93,648)	\$ (381,899)	\$ (422,770)	\$ (898,317)

- d. Please confirm that the financial impact of the proposed NSA on the Postal Service as estimated by USPS-T-2, Appendix A, modified as described in subpart (a) above, except using the before rates volume forecasts originally included in the Postal Service's analysis (USPS-T-2, Appendix A, page 2), would include no discounts being paid, no increase in volume, and therefore no impact on the Postal Service's finances. If not, please provide the calculations showing the impact on the Postal Service's finances under these assumptions.

RESPONSE:

- a.-d. Confirmed that the indicated adjustments and calculations yield the results

displayed above. However, it should be noted that Mr. Thress' elasticity estimates do not take into account cross-price effects between letters and non-letters for either Standard Regular or Standard Regular ECR. For a mailer such as Bookspan, who sends both letters and flats for similar purposes (in this case, to recruit new book club members), changes in the relative prices of letters and flats would be expected to engender shifts in the relative amounts of each type of mail used. Indeed, witness Epp's (Bookspan-T-2) testimony indicates that relative cost plays an important role in determining the distribution of resources and, therefore, the mix of media (including mail) used. By specifically excluding this effect, the calculations above underestimate the true value of the NSA to both Bookspan and the Postal Service.

Additionally, the calculations above imply a highly restrictive interpretation of the average price elasticity calculated for Standard Regular and Standard Regular ECR mail by Mr. Thress. As stated by witness Plunkett in response to interrogatory

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

OCA/USPS-T1-16d, it is quite possible that the price elasticity of Bookspan's new-member marketing mail deviates from the averages of the Standard Mail subclasses, even substantially, without that demand being fundamentally different from those subclasses as a whole. Bookspan's new-member marketing mail is a *very small portion of total Standard Regular Mail* (approximately  $\frac{1}{3}$  of one percent in FY 2004). As such, particular characteristics of Bookspan's mail cannot be taken to represent the Standard Regular Mail subclasses as a whole, and the average characteristics of the Standard Regular Mail subclasses cannot be expected necessarily to well represent Bookspan's mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-1.**

Please describe separately each component of the Bookspan NSA that any subsequent NSA must contain in order to be considered or treated as functionally equivalent to the Bookspan NSA.

**VP/USPS-T1-1 Response**

*The determination of functional equivalence ultimately depends on the Commission's Recommended Decision. From the perspective of the Postal Service, the most salient elements of the Bookspan NSA are:*

- Applying declining block rates to Standard Mail Regular
- Existence of a similar multiplier effect.



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-2.**

For purposes of this interrogatory, please consider that Bookspan is one of a number of firms classified as continuity shippers, meaning that it regularly sends products to a list of people who have agreed to purchase some stipulated minimum number of items (which in the case of Bookspan is a minimum number of books) on a more or less regular basis. Other continuity shippers sell a variety of products, such as women's cosmetics, women's hosiery, etc.

- a. Is being a continuity shipper a critical component of this baseline Bookspan NSA? That is, in order for an NSA to be functionally equivalent to the Bookspan NSA, must the mailer be, or have the characteristics of, a continuity shipper?
- b. Please explain why being a continuity shipper would or would not be a critical component for a functionally equivalent NSA based on the Bookspan baseline NSA.

**VP/USPS-T1-2 Response**

Bookspan is not a continuity shipper, as I understand the term, but a negative option mailer.

- a. No. See also my response to VP/USPS-T1-1.
- b. Based on the definition of continuity shipper supplied in this interrogatory, it appears likely that continuity shippers would generally qualify as functionally equivalent according to the standards I describe in VP/USPS-T1. On the other hand, there may be other customers who employ Standard Mail Regular as an acquisition medium that generate other types of multiplier effects.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-3.**

Witness Yorgey (USPS-T-2) estimates that about five-eighths of the additional contribution from the Bookspan NSA is derived from shifting existing mail volume from a low contribution rate category (*i.e.*, flats) to a higher contribution rate category (*i.e.*, letters).

- a. Is changing existing mail volume from a low contribution rate category to a higher contribution rate category considered to be a critical component of this baseline NSA, so that it would be required for any subsequent NSA to be considered functionally equivalent to the Bookspan NSA?
- b. If switching to a rate category with a higher contribution is not a critical component, or characteristic, in order for some subsequent NSA to be functionally equivalent to the Bookspan NSA, please explain all reasons why it is not.
- c. If switching mail volume to a rate category with a higher unit contribution is not a critical component for a subsequent NSA to be considered functionally equivalent to the Bookspan NSA, is the only critical component of this baseline NSA that it generates increased volume by providing a discount for such volume? Please list and explain any other critical component.
- d. If switching mail volume to a rate category with a higher unit contribution is a critical component of the Bookspan NSA, should a proposed functionally equivalent NSA be required to surpass a minimum percentage threshold for its share of increased contribution from switching to a higher rate category, or will any switching whatsoever qualify such NSA as functionally equivalent?

**VP/USPS-T1-3 Response**

- a. No.
- b. Presumably, customers will vary in their ability to alter the physical characteristics of their messages independent of their ability to comply with the criteria described in my response to VP/USPS-T1-1. The degree to which companies can or will convert letters to flats is important for understanding the financial impact of an NSA, but should not be regarded as a condition of qualification. In this case, the conversion of some flats to letters was an ongoing effort of Bookspan and was neither the basis nor the goal of the NSA.
- c. See my response to VP/USPS-T1-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

d. See my response to part a.

**VP/USPS-T1-4.**

In order for any NSA subsequent to the proposed NSA with Bookspan to be considered functionally equivalent, does the mailer that is party to such NSA have to be a competitor of Bookspan? That is, does it have to be in the business of selling books (or other competing media)?

**VP/USPS-T1-4 Response.**

No. See also my response to VP/USPS-T1-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-5.**

- a. Is increased volume a sine qua non for functional equivalency to the Bookspan NSA?
- b. Is increased volume the only prerequisite for functional equivalency to the Bookspan NSA? If not, what else constitutes the minimum requirement?
- c. (i) If increased volume is all that is needed for a commercial mailer to qualify for an NSA with one or more discounts for such volume, would non-profit mailers that offer the Postal Service increased volume also qualify for NSAs that are functionally equivalent to the Bookspan NSA?  
(ii) Is this what the Postal Service intends to achieve with the Bookspan NSA? If not, what does it intend, and how does the Postal Service propose to clarify/limit the number of mailers that, at least potentially, would be eligible for a functionally equivalent NSA?

**VP/USPS-T1-5 Response.**

- a. An NSA must produce a net gain in contribution for the Postal Service. In the Bookspan agreement, the Postal Service's gain in contribution arises from increases in Bookspan's Standard Mail Regular volume. Thus it is hard to imagine a viable NSA of the Bookspan type that did not produce a net gain in volume.
- b. No. See also my response to VP/USPS-T1-1.
- c. I have not researched non-profit mailers, and therefore can not judge whether there are any that produce a comparable multiplier effect. If a non-profit mailer were able to demonstrate a comparable multiplier effect, and it could be shown that declining block rates could be used effectively to produce a net gain in contribution, then we would explore the suitability of a functionally equivalent NSA.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-6.**

Please answer the following questions with respect to the "multiplier effect."

- a. If the "multiplier effect" is to be given any consideration, why has the Postal Service not presented any quantitative data to support the assertion that it exists?
- b. In the absence of any quantification of the "multiplier effect," how can should the Commission evaluate this aspect of the proposed NSA?
- c. In the absence of any quantification of the "multiplier effect," how can the Postal Service, the Commission and other mailers later evaluate the degree to which the Bookspan NSA has succeeded in adding incremental contribution over that received from Bookspan itself under the proposed NSA?
- d. What role does/should the "multiplier effect" have in the assessment of any subsequent NSA offered as "functionally equivalent?"
- e. What is the minimum threshold for "multiplier effects" below which no consideration should be recognized?

**VP/USPS-T1-6 Response.**

- a. The testimony of witness Posch describes the multiplier at length. Virtually all of Bookspan's business is conducted through the mail. Irrespective of the precise magnitude of the effect, if the multiplier effect did not exist, then Bookspan would not exist.
- b. The Postal Service has not relied on the quantified value of the multiplier effect to demonstrate that the proposed NSA produces a net gain in contribution. As shown in the testimony of witness Yorgey, the NSA produces a net gain in contribution independent of the financial value of the multiplier effect. However, the presence of a multiplier effect of the kind described by witness Posch is a key condition of the NSA with Bookspan. The NSA is intended to produce revenue not only from additional Standard Mail letters due to the discounts offered, but also from the multiplier pieces.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

- c. The Postal Service will be in a position to measure the changes in Bookspan's mail volumes over the life of the NSA, and consequently will be able to demonstrate the value of the multiplier effect over time. Since the analysis provided by witness Yorgey demonstrates a gain in contribution apart from the multiplier effect, analysis of this effect can be deferred until the necessary empirical data exist.
- d.-e. As described in my response to NAA/USPS-T1-7, functionally equivalent NSAs should produce a multiplier effect, which ought to be subject to a qualitative assessment. As such, there is no "minimum threshold" that can be stated in the abstract.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-7.**

- a. With respect to the discount that the proposed NSA offers Bookspan if or when it switches existing mail volume from a low contribution category to a higher contribution category, would it be fair to say that the proposed discount offers pricing signals to Bookspan that, from the perspective of the Postal Service, are better than the pricing signals contained in the existing rate structure? Please explain any answer that is not an unqualified affirmative.
- b. If so, would it not be a better approach for the Postal Service to request the Commission to modify generally applicable rates to give the same pricing signals to all mailers? If not, please explain why not.
- c. If the Bookspan NSA were approved and implemented as proposed, would it in any way operate to lead to or cause a change in generally applicable rates more likely or less likely? Please explain.

**VP/USPS-T1-7 Response.**

- a. Negotiated Service Agreements are the result of direct negotiations with an individual customer. Consequently, the pricing signals that NSA discussions produce should almost always be "better" than signals applied more broadly through classifications. This NSA offers discounts for letters, regardless of whether they are the result of conversion from flats or new pieces. See my response to VP/USPS-T1-3b.
- b. Please see my response to OCA/USPS-T1-16.
- c. The approval and implementation of the proposed NSA would not directly influence the rates in the relevant subclasses. The Bookspan NSA is not designed to test such general price changes in any way.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-8.**

Please refer to your testimony at page 5, lines 17-18, where you state that "[i]n crafting NSAs, the Postal Service tries in advanced to identify competitors of the NSA partner and functionally equivalent customers." Without naming any specific firm, please indicate all types or categories of firms that the Postal Service has identified to date as functionally equivalent customers to the proposed Bookspan NSA.

**Response:**

Without the benefit of a Recommended Decision in this case, an absolute determination of functional equivalence is difficult. The companies of which we are currently aware that may be interested in functionally equivalent NSAs use Standard Mail Regular letters to acquire customers and to offer them subscription-based products through the mail.



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-9.**

Please refer to your testimony at page 6, lines 7-11, where you state that "the universe of potential NSA customers ... who present substantial cost savings opportunities ... [is limited to] a relatively small number of customers, and ... NSAs are generally not the ideal way to implement cost savings initiatives." Based on your direct experience in negotiating NSAs with Postal Service customers, please provide a brief description of all potential cost savings initiatives of which you have become aware — other than those in the Cap One (Docket No. MC2002-2) and functionally equivalent NSAs — regardless of whether they may or may not result in a future NSA, and regardless of whether the cost savings opportunity is sufficient to justify the perceived transaction costs.

**Response:**

For instance, the Postal Service considered a proposal whereby a customer would allow the Postal Service to select specific entry points for its First-Class Mail. Bookspan originally offered a proposal for enhanced worksharing of some of their mail but it did not result in significant cost savings. The Postal Service has also discussed various incentives for improved mail quality in many classes of mail. In one instance, the Postal Service considered automatic diversion of mail to a customer's nearest physical location in instances where the address on the face of the envelope might be different.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-10.**

Please refer to your response to OCA/USPS-T1-1(b-c), where you state that "all companies are advised of the need to provide sworn testimony in the event that an agreement is consummated."

- a. When negotiating NSAs with prospective partners, on net balance, do you find that the requirement for the company to provide sworn testimony is more of a help, or more of a hindrance, to conclusion of a successful negotiation? Please explain the basis for your answer.
- b. Does the requirement for a company that is party to an NSA to provide sworn testimony in support of the NSA have a substantial impact on the company's transaction cost? Please explain.

**VP/USPS-T1-10 Response**

- a. This requirement generally complicates discussions to some extent, but also has benefits. Few companies have experience in postal litigation, and are naturally sensitive to how discovery will be conducted, and how public statements by their managers and officers will be received. (This may explain in part why litigants often hire consultants or representatives of trade associations.) On the other hand, as I indicated in the answer cited in the question, this requirement is likely to ensure that information presented to the Postal Service as the basis for an NSA is sufficiently reliable that a representative of the company is willing to present it to the Commission as sworn testimony.
- b. Yes. In our experience most NSA customers have no prior experience in postal ratemaking, and therefore no dedicated legal or analytical resources of the kind typically used to prepare testimony. As has been demonstrated, all previous NSA customers have engaged outside legal representation from firms with established practice in postal ratemaking.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-11.**

Please refer to your response to OCA/USPS-T1-4(b), where you state that "I continue to hope – naively, perhaps – that the transaction costs of NSAs can be reduced so as to make NSAs viable for a larger number of customers."

- a. *Would you recommend that the requirement for sworn testimony by one or more witnesses from the co-proponent be eliminated?*
- b. *Would you recommend that the requirement for review by the Commission be eliminated?*
- c. *Do internal Postal Service reviews and requirements materially increase the transaction cost for customers that are party to NSAs?*

**Response:**

- a. I am advised that testimony by the co-proponent is not required by the Commission's rules, *but it certainly seems advisable, given the current regulatory scheme, if the Postal Service is to support its request for a recommended decision.*
- b. No. However, I would recommend that after-the-fact review would be a superior approach.
- c. Those internal reviews that are driven by the need to prepare testimony that will undergo review by the Commission and by the need to secure a Board of Governors vote prior to filing a request with the Commission certainly do.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-12.**

Please refer to your testimony at page 2, lines 9-10, where you state that "NSAs have tremendous potential to improve the Postal Service's ability to price its products...."

- a. Is it your position that the Postal Service's pricing structure for its various products and services contains anomalies or incongruities that have "tremendous potential" for improvement and can be overcome by NSAs, at least for those customers that are party to an NSA? Please explain fully any answer that is not an unqualified affirmative.
- b. Aside from declining block discounts, which are discussed in your testimony, please provide two or three examples of other opportunities or situations where you think NSAs have tremendous potential to improve the Postal Service's ability to price its products.

**Response:**

- a. This was not the original meaning of my statement. But as a general observation, the Postal Service has thousands of prices and millions of customers. It would be surprising if there were not many instances where deaveraging created opportunities for more efficient pricing through direct negotiations with customers.
- b. In addition to declining block rates, other forms of incentives might be used effectively to induce additional volume, such as a temporary trial rate for customers who make no – or very limited – use of the mail to market their products. More importantly, my statement regarding the potential for NSAs was not based specifically on known potential agreements. With the exception of retail stores, virtually all businesses negotiate prices with their customers. I think it's reasonable to conclude that such a routine way of doing business would not have become so prevalent if it did yield improved results. Thus it is also reasonable to infer that the Postal Service, since it derives a substantial share of its revenues by providing services to business users, would also benefit by being

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

able to apply the same techniques used elsewhere. I would also suggest that the Postal Service's customers have long been a source of advances in postal pricing even before the advent of NSAs. I believe an efficient mechanism for negotiating business terms with individual customers would allow for more such advances in the future.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-13.**

Please refer to your response to OCA/USPS-T1-5(a-b), where you state that "Standard Mail letters provide a larger contribution to institutional costs than do nonletters."

- a. Is it reasonable to infer from your statement that, from the viewpoint of increasing the contribution to institutional cost, the Postal Service prefers to have mailers enter Standard Mail letters more than Standard Mail nonletters? Please explain any answer that is not an unqualified affirmative.
- b. Is the increased contribution from conversion of flats to letters, as discussed by you (as well as by witness Yorgey (USPS-T-2, p. 6, ll. 13-16)), an indication that Standard Mail letters are overpriced relative to Standard Mail flats that weigh less than 3.3 ounces? Please explain any answer that is not an unqualified affirmative.

**Response:**

- a. The Postal Service prefers mail. All other things being equal, letters do contribute more than flats on average. Bookspan has been converting some of its flats to letters for its own business reasons. The NSA is not intended to address that fact, but our financial analysis must attempt to determine how the change in prices offered by the NSA will affect the conversion and the Postal Service's bottom line.
- b. No. If letters were overpriced, it does not seem that Bookspan would be converting its flats to letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-14.**

Please refer to your testimony at page 4, line 19, where you state that "[t]he Bookspan NSA concerns only volume generation." Also, please refer to your response to OCA/USPST1-5(j), where you state that "[i]nducing conversion is not the goal of this NSA." In addition, please refer to your response to NAA/USPS-T1-1, where you state that "[t]he incentives in the Bookspan NSA are intended to increase contribution by virtue of volume increases."

- a. Would any NSA that is functionally equivalent to the proposed Bookspan NSA be concerned only with an increase in volume and an increase in contribution by virtue of volume increases?
- b. Please refer to your response to NAA/USPS-T1-2, where you state that "[i]f you are asking if I would recommend the NSA [if] ... the agreement merely provided discounts for Standard Mail solicitation letters that produced no additional mail volume other than an incremental increase in Standard Mail solicitation letters, I would say no." Changing the question slightly, would you recommend an NSA if the agreement provided declining block discounts for Standard Mail solicitation nonletters that converted to Standard Mail solicitation letters, and had an expectation for a large volume of conversion from flats with negative or low unit contribution to letter-shaped mail with a high unit contribution, but no expectation of any increase in volume (i.e., no multiplier effect)? Please explain the basis for your answer, regardless of whether it is affirmative or negative.
- c. When you evaluate an NSA that produces some small amount of new volume, coupled with a shift in volume from a category with negative or low contribution (e.g., flats) to a high contribution category (e.g., letters), in terms of the gross contribution derived from (i) new volume, and (ii) conversion, what is the minimum percentage of the NSA's gross contribution that you would expect to require from new volume? That is, in the case of the proposed Bookspan NSA, the contribution from new volume is about three-eighths of the gross contribution, while the contribution from conversion is about five-eighths of the gross contribution. Assuming that the new volume may possibly result in some unquantifiable multiplier effect, in terms of the gross contribution, how small can the percentage contribution be for new volume before you would not recommend it? (I.e., One-fourth? One-fifth? One-tenth?)
- d. For this NSA, as well as any functionally equivalent NSA that "concerns only volume generation," should any increased contribution from conversion be treated as incidental, rather than integral, to Postal Service benefits derived from the NSA?
- e. If the proposed Bookspan NSA solely concerns generation of new volume, and inducing conversion is not a goal of the Bookspan NSA, please explain why the Commission, when evaluating the expected outcome, should not discount, or ignore altogether, the incremental contribution to overhead that is expected to be derived by converting existing mail from a flat to letter-shaped format.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**Response:**

- a. All NSAs must produce an increase in contribution. The Bookspan NSA is based on increases in volume, and, presumably, a functionally equivalent agreement would be as well.
- b. To the extent price signals are intended to affect customer decisions about shape, I think such signals are best sent through changes in the tariff rates. Having said that, there may be some unique circumstance – of which I am currently unaware – where an NSA might be include such an incentive.
- c. The Postal Service has not evaluated any other agreements of this kind, thus there have been no decisions regarding a minimum standard of the kind suggested here. In general, the Postal Service prefers to evaluate an agreement in its entirety rather than to establish rigid criteria for specific features of possible agreements.
- d. As I indicated in response to parts (b) and (c) above and in the answers cited by the questions, conversion was neither the goal nor the focus of the negotiations and ultimately the NSA. Similarly, I would not expect it to be the goal or the focus of functionally equivalent NSAs. As here, in any event, the net effect of conversion must be measured and should be considered.
- e. By definition, NSAs provide customized prices for customers that had previously been paying tariff rates. Thus the prevailing tariff rates are a part of the context in which any NSA will be evaluated. When one of an NSA customer's prices is changed at the margin, it is therefore likely to affect how that customer uses all postal products that can in any way be substituted for one another. This may be



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

reflected in movement between and among different shapes, or among different subclasses. In any event, evaluation of the effects of an NSA should include a reasonable attempt to account for any such movements.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T1-15.**

This question involves a hypothetical. Please suppose that the Postal Service's rate for Standard Mail letters and the minimum piece rate for Standard Mail nonletters (i.e., flats that weigh less than 3.3 ounces) were set so as to derive the same unit contribution from each product without giving any kind of special discount or other rate incentive. Under this hypothetical, the Postal Service would be relatively indifferent as to whether mailers entered Standard Mail letters or flats. Further, if a discount were given for converting flats to a letter format, the Postal Service would not realize any increased contribution from such conversion, but rather a net reduction in contribution. If rates were set as posited here, and discounts were restricted to net new volume, then under the proposed Bookspan NSA all conversion of flats to letters would not result in any increased contribution, the contribution from new Standard Mail letters over three years would be \$3,264,351 (as shown in USPS-T-2, App. A, p. 9, l. 1), total incremental discounts would be \$960,000 (id., l. 5), and the Total USPS Value would be reduced from \$7,433,738 (id., l. 6) to \$2,304,351. Under these conditions, please indicate whether you would recommend the NSA, and explain why or why not?

**Response:**

Hypothetically speaking, I would recommend any NSA that conformed to the criteria of the Act and that produced a value greater than zero, because all such agreements would make the Postal Service and its customers better off.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC. REDIRECTED FROM WITNESS YORGEY

**VP/USPS-T2-9.**

Please review your response to VP/USPS-T2-3 and respond to the following.

- e. In your opinion, to what extent is the projected after-rates loss on Bookspan's Standard Mail Regular non-letters a result of inadequate or non-mailer-specific cost data, and to what extent is it a result of improper pricing? If you believe the projected loss is due to other factors, please specify them.

**RESPONSE:**

- e. Decisions regarding which methodologies to employ in developing estimates of the costs associated with a particular customer's mail must consider the cost—and expected utility—of the effort required to produce them. In this case, the unit cost of Standard Mail non-letters is a minor component of the model used to estimate the value of the agreement. An investment of substantial resources would be required to study every component of the costs of Bookspan's mail in order to model the NSA's effects at the level of precision that these questions would suppose. This investment would be difficult to justify in light of the level of return expected.

1 CHAIRMAN OMAS: Is there any additional  
2 written cross-examination for Witness Plunkett?

3 (No audible response).

4 CHAIRMAN OMAS: There being none, that  
5 brings us to oral cross-examination. Three parties  
6 have requested oral cross-examination -- the Newspaper  
7 Association of America, the Office of the Consumer  
8 Advocate, and ValPak Marketing Systems, Incorporated  
9 and ValPak Dealers Association, Incorporated.

10 Mr. Baker, identify yourself and you may  
11 begin.

12 MR. BAKER: Mr. Chairman, Bill Baker for the  
13 Newspaper Association of America.

14 Mr. Olson has advised me that he has a  
15 conflict later this afternoon and I would give him the  
16 courtesy of preceding me if that's acceptable to you.

17 CHAIRMAN OMAS: Fine. Mr. Olson, if that's  
18 acceptable to Mr. Costich.

19 MR. COSTICH: Yes, Mr. Chairman.

20 CHAIRMAN OMAS: Therefore, Mr. Olson, you  
21 may proceed.

22 MR. OLSON: Thank you, Mr. Chairman. And  
23 than you, counsel, for your indulgence.

24 CROSS-EXAMINATION

25 BY MR. OLSON:

Heritage Reporting Corporation  
(202) 628-4888

1           Q     Mr. Plunkett, William Olson representing  
2     ValPak Direct Marketing Systems and ValPak Dealers  
3     Association.

4                     Could you begin by opening your testimony to  
5     page one and focus on lines 15 through 17 where you  
6     say that "NSAs demonstrate that declining block rates  
7     are a useful tool for stimulating additional use of  
8     the mail for customers that advertise and exercise  
9     discretion over how much mail to send." Do you see  
10    that?

11           A     Yes.

12           Q     When you speak of additional use of the mail  
13    in your testimony do you mean additional volumes that  
14    are the result of the declining block rates?

15           A     Yes, that's what that means.

16           Q     Aren't those additional volumes from the  
17    declining block rates the result of offering lower  
18    prices and a reflection of elasticity of demand and in  
19    this case of Bookspan's demand?

20           A     That specific statement doesn't refer  
21    directly to Bookspan, but I would acknowledge that by  
22    definition declining block rates include lower prices  
23    at the margin and to the extent that a customer  
24    applies those prices and produces more mail, that  
25    implies elasticity of demand.

1           Q     I didn't mean to say your testimony was  
2     there discussing Bookspan, you were talking about the  
3     individual mailer however, correct?

4           A     That's correct.

5           Q     If a particular mailer had a relatively  
6     inelastic demand, meaning that their volume would not  
7     be particularly responsive to changes in price,  
8     reductions in price, would that mailer be a good  
9     candidate for an NSA with declining block rates?

10          A     Well, I have a difficult time with the  
11     question because it compares a relative term with a  
12     specific term.

13                 If demand is relatively inelastic, then that  
14     presumes there is some response to price incentives  
15     but perhaps not as large as another company, which I  
16     can accept.

17                 I'd be reluctant, though, to say whether  
18     that makes them a good versus not good candidate for  
19     an NSA.

20                 If they are relatively inelastic but still  
21     show some ability to respond to price incentives they  
22     may be a good candidate for a declining block rate  
23     NSA.

24          Q     I'm trying to get to a general statement  
25     that I think you might be able to agree with. Let me

1 flip it around and ask you about a mailer that has an  
2 elasticity of demand that was comparatively high,  
3 meaning that its volume would respond to lower rates  
4 in a significant way. Would that mailer tend to make  
5 a better candidate for an NSA with declining block  
6 rates than one with an inelastic demand?

7 A I apologize, I have a difficult time  
8 applying those kind of value-laden terms to specific  
9 customers.

10 What I would say is in the case of a  
11 customer whose demand were perceived to be relatively  
12 elastic, we would expect a better response from  
13 declining block pricing than we would relative to a  
14 customer whose demand was relatively inelastic.

15 So the NSA from the "elastic" customer would  
16 probably be more valuable, all other things being  
17 equal, than a comparable NSA with the "inelastic"  
18 customer.

19 Q Would you turn to page there of your  
20 testimony, line 13.

21 You say, "In the Bookspan agreement the Post  
22 Service is seeking to employ declining block pricing  
23 in standard mail," correct?

24 A Yes.

25 Q Then dropping down a bit to line 15 you say,

1 "The proposed pricing structure will result in  
2 increased standard mail letter volume, and by virtue  
3 of the multiplier effect an increase in mail in other  
4 product areas as well." Correct?

5 A Yes.

6 Q I'm aware there are certain interrogatory  
7 responses where you stress the multiplier effect of,  
8 as an important component of a Bookspan NSA correct?

9 A Yes, that's right.

10 Q But for purposes of these questions I don't  
11 want to address the multiplier effect. I want to set  
12 that aside and focus on the effect of declining block  
13 discounts on mailers and how that could result in an  
14 increase in the volume of advertising mail, okay?

15 A All right.

16 Q Page four, lines four to five, you note that  
17 virtually all standard mail is sent for discretionary  
18 purposes, and by discretionary purposes do I take that  
19 to mean another way of saying advertising?

20 A I would say that's not an unfair  
21 substitution one could make.

22 Q And does your reference to standard mail in  
23 line five include reference to both standard regular  
24 and standard ACR?

25 A In line five I did not make a distinction



1       between the two. Of course our agreement with  
2       Bookspan is standard mail regular. But my statement  
3       was more general in nature and I was discussing  
4       standard mail.

5           Q       Bookspan does send mail at standard ECR,  
6       does it not?

7           A       That's correct, they do.

8           Q       Suppose that an advertising mailer in either  
9       standard ECR or standard regular had an elasticity of  
10      demand that was somewhat greater than the average for  
11      the subclass as a whole.

12          A       All right.

13          Q       I know there are many factors that go into  
14      the identification of a candidate for an NSA, but  
15      would you not agree that having an elasticity of  
16      demand that is greater than the average of the  
17      subclass as a whole is a good first step?

18          A       I would say that when we evaluate a  
19      potential NSA customer, that is not an immediate  
20      consideration. When we attempt to quantify the  
21      benefits of an agreement once we've assembled some  
22      structure, and that may not necessarily be precise  
23      discounts or precise volume thresholds, but once we  
24      have let's call it a rough draft of what an agreement  
25      would look like, we then attempt to make informed

1 judgments about the customer's response to the  
2 incentives for the purposes of placing a value on the  
3 NSA.

4 But if I correctly interpret your question,  
5 during the phase when we evaluate sort of, for lack of  
6 a better term, the viability of an NSA candidate, we  
7 do not specifically attempt to model their demand  
8 either in relative terms, relative to the subclass  
9 averages in which they would belong, or in absolute  
10 terms.

11 Q But if -- Remember a moment ago I asked you  
12 to put aside the issue of multiplier.

13 A Yes.

14 Q And so I'm really just talking about the  
15 effect on the Postal Service of offering a mailer  
16 declining block discounts and if you offer a mailer  
17 that has a highly elastic demand declining block  
18 discounts, you would tend to generate net contribution  
19 for the Postal Service, wouldn't you? Or new volume  
20 in any event.

21 A Well, we would not, as a rule we would not  
22 present an NSA that did not generate positive net  
23 contribution for the Postal Service. If you're asking  
24 if all other considerations are equal, perfectly  
25 equal, and one customer has a higher elasticity than

1 another, would we do an agreement with one customer  
2 and not the other? I would say no.

3 It's possible that both would be viable NSA  
4 candidates and we would evaluate them on their own  
5 terms and not seek to make a comparison that gave an  
6 advantage to one or a disadvantage to the other.

7 Q Let's think about a mailer that has a very  
8 low elasticity of demand and you're proposing an NSA  
9 for such a mailer, and again, without consideration of  
10 the multiplier effect. If they have a relatively  
11 inelastic demand they're not sensitive to price cuts  
12 and they're not going to generate much new volume as a  
13 result of the declining block discounts, and that's  
14 not going to be helpful to the Postal Service, is it?

15 A My first question for this hypothetical  
16 customer is if they approached us requesting that we  
17 provide them with some incentives in the form of  
18 discounts, my first question would be well, and again  
19 I'm making this up on the spot, I would say something  
20 like well, based on our knowledge of your business and  
21 the industry in which you operate, it's not clear to  
22 us exactly how you would use these incentives to  
23 benefit your business, so it makes it difficult for us  
24 to evaluate the effect on the Postal Service. Please  
25 explain to me how that would work so that we have a

1 better idea whether this is a viable concept to pursue  
2 or not.

3 Q And if I were representing a, as a pure  
4 hypothetical, if I were representing a company that  
5 wanted an NSA and I came in and said Mr. Plunkett, it  
6 really doesn't matter to us too much how much you  
7 charge, we're only going to give you the same amount  
8 of volume even if you give us a discount, but we sure  
9 would like a discount. That's not very persuasive,  
10 correct? In seeking an NSA.

11 A It won't surprise you to learn that I've  
12 heard that before. That generally --

13 Q Not from me, right?

14 A No.

15 (Laughter).

16 A It generally doesn't work.

17 Q The high elasticity does motivate the Postal  
18 Service to look harder at the NSA proposal, doesn't  
19 it?

20 A Again, we generally do not use that variable  
21 in our analysis until we've proceeded a little bit  
22 with a customer. Again, we use that mainly when we --  
23 I'm going to describe this in a way that makes it  
24 sound sequential and linear when in fact it's more  
25 iterative, but generally, the early stages of an NSA

1 discussion are exploratory, where we meet with a  
2 customer, we have discussions about their business, we  
3 do some analysis of their historical mailing patterns  
4 and through back and forth discussions and internal  
5 discussions we attempt to decide whether or not it  
6 looks like an NSA is possible.

7 Then we enter sort of a next phase where we  
8 actually seek to develop proposals and counter-  
9 proposals and structure an actual agreement.

10 It's only toward the latter end of that  
11 second phase where we actually start to try to  
12 quantify the benefits, because until then it really  
13 doesn't have sufficiently defined characteristics for  
14 us to do that.

15 Then when we reach that point we attempt to  
16 make inferences about that customer's demand response.  
17 It's at that point that we would bring elasticity into  
18 the equation and try to get a better handle on what  
19 the value of the agreement is going to be. But again,  
20 that's not the first thing we do, far from it. It's  
21 after sometimes considerable time has elapsed with the  
22 customer.

23 Q But irrespective of when it occurs,  
24 understanding that it's not a linear process but an  
25 iterative process that could occur perhaps at

1 different times in different negotiations, but at some  
2 point the relative elasticity of the mailer becomes  
3 important to evaluating the significance of the  
4 discounts to the mailer and their susceptibility to  
5 help the Postal Service through additional volume,  
6 correct?

7 A Certainly. And if nothing else, at some  
8 point, and again I'm assessing this in hypothetical  
9 terms. If a customer's demand were truly inelastic  
10 such that no incentives would produce a volume  
11 response, my assumption is discussions of the kind  
12 you're describing would reach an unbreakable impasse  
13 and we would be left with nowhere to go, and that  
14 would sort of fall apart under its own weight.

15 Q Are you familiar with the inverse elasticity  
16 rule?

17 A In general terms, but please don't ask me to  
18 define it.

19 Q If I were to suggest that one way to look at  
20 the inverse elasticity rule is that markups on  
21 products or coverage of products should vary inversely  
22 with elasticity. Would that be a fair, short  
23 description do you think?

24 I see you have at least one degree in  
25 economics.

1           A     Well, if you're looking at it from a purely  
2     economic perspective, that may be true. Of course in  
3     postal ratemaking there are a number of other factors  
4     that must be considered in addition to a customer or  
5     subclasses of elasticity of demand.

6           Q     But generally subclasses with high  
7     elasticity would have low markups and vice versa.  
8     That would be the inverse elasticity rule, would it  
9     not? If that were the only factor?

10          A     Again, you have to hold all of the factors  
11     constant --

12          Q     Exactly.

13          A     My experience tells me that's virtually  
14     impossible.

15          Q     But you can for purposes of questions of  
16     witnesses on the stand, so if you hold everything else  
17     constant --

18          A     Ceteris paribus, yes, I would agree with  
19     that proposition.

20          Q     Okay. That's all I'm trying to get at.

21                 Do you have a view of the validity or  
22     desirability of the inverse elasticity rule as you do  
23     your work with NSAs? Does it ever come up?

24          A     It really hasn't, and in part that may just  
25     be a practical matter because there have been a

1 relatively small number, so there's not a large pool  
2 of empirical evidence with which to sort of evaluate  
3 that proposition as it would apply in negotiated  
4 pricing in this context.

5 Q If you know, since you've been around the  
6 Commission process a while I'll just ask you, if you  
7 know -- if you don't, that's fine. But are you  
8 familiar with prior instances where parties have  
9 argued to the Commission that it used the inverse  
10 elasticity rule and the Commissions decline generally  
11 to at least adopt it in a big way?

12 A I'm familiar with the argument in a general  
13 sense, and my understanding of it is that it's like  
14 many other economic principles which when applied in  
15 abstract terms help to illuminate certain specific  
16 problems. On the other hand, in the context of postal  
17 ratemaking, generally there are a number of other  
18 factors that either directly contradict or if nothing  
19 else mitigate the conclusions one would draw from  
20 purely economic analysis.

21 Q Exactly. And the Commission having many  
22 factors to consider has declined to go with some  
23 strict application of the inverse elasticity rule,  
24 that's what you're saying?

25 A Based on my admittedly limited



1 understanding, yes.

2 Q Well if NSAs have as their sole feature  
3 declining block rate discounts that are extended to  
4 firms with above average elasticity of demand, does  
5 that strike you as a way to selectively circumvent the  
6 Commission's historic view of the inverse elasticity  
7 rule?

8 A If that's the perception, it's not the  
9 intent. The closest I can come to affirming that is  
10 that, and we've acknowledged this, that by definition  
11 NSAs do perform a type of de-averaging, just by  
12 definition of isolating a single customer within the  
13 subclass that they belong to.

14 Now as a result we view the prices  
15 associated with a specific customer in isolation and  
16 inadvertently or indirectly that may allow us to  
17 consider arguments in a different context, but that's  
18 certainly not the intent.

19 Q Well, you said if it's the perception it's  
20 not the intent. Could it be taking, looking at it  
21 from the standpoint of the effect, do you think it  
22 could have that effect if NSAs are offered to mailers  
23 with high elasticity?

24 A I would hope not. I think there's something  
25 that probably needs to be pointed out. We can't

1       coerce a company into an NSA. They have to be a  
2       willing partner. And I'd say if anything what's more  
3       likely to be happening now is the, for lack of a  
4       better term, the early adopters of NSAs I think are  
5       probably more likely to be companies who would tend to  
6       have higher elasticities on average than the rest of  
7       the companies that make up their subclass, because  
8       they perceive a greater ability to leverage an NSA for  
9       the purposes of improving their business than a  
10      customer whose demand is less elastic. So there's a  
11      type of self-selection at work that tends to narrow  
12      the pool early on.

13               Our hope is over time as we gain more  
14      experience that that phenomenon, if it is real, would  
15      tend to dissipate.

16           Q     Let me ask you to turn to page four of your  
17      testimony please. On line five is where I am.

18           A     All right.

19           Q     You state, "One could argue that virtually  
20      all standard mail is sent for discretionary purposes,  
21      thus the prudent extension of declining block rates  
22      into standard mail will enable greater use of this  
23      technique and create opportunities for further  
24      increases in contribution."

25               Within the two subclasses of standard mail -

1 - standard regular and standard ECR -- are you aware  
2 of the unprice [ph] elasticities measured by Witness  
3 Thress in Docket R-95-1?

4 A I have seen them and I have read Witness  
5 Thress' testimony, but I did not familiarize myself  
6 with them anew preparing for this proceeding so I'd be  
7 lying if I said I could recall what they were.

8 Q If I were to suggest that, having just  
9 looked them up, that the unprice elasticity of ECR was  
10 estimated to be minus 1.093, and the elasticity for  
11 standard regular was minus .267, would you accept that  
12 subject to check?

13 A That's consistent with my understanding of  
14 the relative elasticities.

15 Q Which indicates that standard ECR is much  
16 more, has much more elastic demand than standard  
17 regular, correct?

18 A Well, using that technique to measure  
19 elasticity I would agree. However, I would qualify  
20 that by saying that doesn't mean that there aren't  
21 some customers using standard mail regular who exhibit  
22 greater price elasticity than some customers who use  
23 standard mail ECR.

24 Q Just on average for the subclass, though it  
25 would be true correct? That the elasticity of demand

1     for standard ECR is much higher than for standard  
2     regular.

3           A     Well that's indicated by Witness Thress'  
4     equations.

5           Q     And are you aware that in the, again in the  
6     rate case, and the only reason I go over this is  
7     because it has relevance. We just saw the updating of  
8     some numbers by Witness Yorgey based on after rates  
9     and such, so we have to use the numbers as they are.  
10    But are you aware that the Postal Service costing, the  
11    coverage proposed for ECR in the rate case is 231.7  
12    and for regular is 151.6.

13          A     I don't recall. Of course I've seen those  
14    numbers some months ago now, but subject to check, I  
15    would accept that.

16          Q     That it was significantly higher for ECR  
17    than for regular.

18          A     Again, subject to check, I agree that that's  
19    probably the case.

20          Q     And are you aware of the unit contribution  
21    of ECR exceeds the unit contribution of regular?

22          A     I'm not as familiar with the unit  
23    contribution numbers but again, subject to check that  
24    sounds like at least a plausible outcome.

25          Q     Well, what I'm trying to get at is whether

1     you would agree, based on these factors we just  
2     discussed, that the Postal Service pricing of the two  
3     standard subclasses seems to go out of its way to  
4     propose rates that are the opposite of what would be  
5     indicated by the inverse elasticity rule.

6           A     Could you repeat that?

7           Q     Based on what we discussed, the unprice  
8     elasticities, the coverages, the unit contributions,  
9     that the pricing of the two standard subclasses in  
10    pricing those, that the Postal Service has proposed  
11    rates that are almost exactly opposite what the  
12    inverse elasticity rule would dictate, if that were  
13    the only factor.

14          A     I don't think I would go that far. I will  
15    accept that if you isolate that specific variable,  
16    price elasticity, you might have identified something  
17    that appears counter-intuitive. I wouldn't say it's in  
18    direct contradiction. But I would go back to what I  
19    said before, in that while I certainly did not develop  
20    the prices for standard mail in the omnibus case, the  
21    people who did had to take into account a wide array  
22    of factors, and not just price elasticity. In fact --

23          Q     No, no, no. My question is not about proper  
24    compliance with the Act and all of its factors. It's  
25    purely about the inverse elasticity rule is that the

1 higher the elasticity of demand the lower the coverage  
2 and vice versa, then the rates being, the coverages  
3 being requested by the Postal Service are the opposite  
4 of what you'd expect from the standard subclass,  
5 aren't they?

6 MR. REITER: Mr. Chairman, I'm sort of  
7 wondering why we're talking about the rate case  
8 prices.

9 MR. OLSON: Because we're about to go to  
10 page two of the testimony of the witness which bears  
11 on this.

12 MR. REITER: Okay. And --

13 THE WITNESS: My understanding of how one  
14 would apply the inverse elasticity rule to price two  
15 products depends greatly on the goals of the firm  
16 setting the prices. And if the goal of the firm was  
17 to maximize its profit, then you would apply the  
18 inverse elasticity rule I think in the manner that  
19 you're suggesting we apply it.

20 Since the Postal Service operates under a  
21 break-even constraint where what is gained from one  
22 subclass is essentially taken away from another  
23 subclass, it's not as straightforward as just applying  
24 that rule as a profit maximizing entity would.

25 BY MR. OLSON:

1           Q     Let me take that as background and ask you  
2     to turn to page two of your testimony, lines nine and  
3     ten.

4                     There you say that "NSAs have a tremendous  
5     potential to improve the Postal Services' ability to  
6     price its products." Correct?

7           A     I believe that, yes.

8           Q     If the Postal Service has persistently  
9     failed or declined or refused to reflect the different  
10    elasticities of demand in rate levels of the standard  
11    mail advertising subclasses, is this failure a major  
12    source of what you call the tremendous potential to  
13    improve the Postal Service's ability to price its  
14    products?

15          A     No. I was making what I believe to be a  
16    fairly general and relatively straightforward  
17    observation which is that there are gains that can be  
18    made through negotiation beyond just our ability to  
19    differentiate and price specifically two specific  
20    customers. And we've attempted to apply those already  
21    to what we've learned with the credit card banks we  
22    did the first several NSAs with, and as we undertake  
23    negotiations with companies we gain insights into how  
24    different companies and industries make use of the  
25    mail and I believe that independent of the financial

1 value we can extract from NSA contracts, that will in  
2 the long run allow the Postal Service to do a better  
3 job pricing its products and services and developing a  
4 better set of products and services to meet the needs  
5 of the mailing community as a whole.

6 Q Well I guess this is my wrapup question on  
7 this section which is just that when we started you  
8 agreed that elasticity of demand may not be the first  
9 threshold issue you look at but it's certainly  
10 something you look at, putting aside the multiplier  
11 effect, to decide a candidate, whether a candidate for  
12 an NSA is a good candidate, whether it's going to  
13 result in additional volume for the Postal Service. I  
14 guess I'm asking whether you have any observations on  
15 why the Postal Service is willing to consider  
16 elasticity of demand for individual mailers under NSAs  
17 when its pricing of the advertising products --  
18 standard regular, standard ECR -- tend not to reflect  
19 that elasticity of the mailers.

20 A Can you say that again?

21 Q Sure.

22 At the beginning we talked about how the  
23 Postal Service does look at the elasticity exhibited  
24 by a candidate for an NSA. It may not be the first  
25 thing but it does come up and it does, if we put aside



1 the multiplier, then that's how you generate more  
2 volume from lower prices. It's their elasticity.

3 I guess I'm asking you as the NSA guru at  
4 the Postal Service to tell us why the Postal Service  
5 is focused on mailer elasticity in the NSA arena when  
6 it tends not to focus on it with respect to pricing  
7 of standard ECR and standard regular which after all  
8 are the advertising mail you're trying to generate.

9 A I interpret that as sort of an either/or  
10 proposition. While I wouldn't characterize the Postal  
11 Service's position on either side of that as being as  
12 absolute as you're implying, we are forced to consider  
13 the elasticity of an NSA customer because we're  
14 obligated to present financial analysis of the  
15 agreement we're signing with that company.

16 So I believe as a result, and as a result of  
17 the lines of questions we're facing from our opponents  
18 in this forum, that that has drawn a lot of attention  
19 to a specific variable the implied price elasticity of  
20 the individual customer we've negotiated with.

21 The fact that that has become such a  
22 highlighted topic in NSA litigation does not  
23 necessarily mean that that is the single most  
24 important element that the Postal Service considers  
25 when it negotiates with a company and when it proposes

1       an NSA.

2               Conversely, within the context of postal  
3       ratemaking in general, I think it's unfair to say that  
4       we do not consider price elasticity when setting  
5       prices, keeping in mind that price elasticity  
6       generally refers to price changes, and in general, the  
7       fact that a company has, a subclass has different  
8       price elasticity characteristics is considered when  
9       the Postal Service proposes price changes.

10       Q       I don't know if I want to pursue this too  
11       much further but I do in terms of the opponents or  
12       whatever term you used about people who are looking  
13       critically at NSAs. But page one of your testimony in  
14       the language we looked at before, lines 15, 16, and  
15       17, you talk about demonstrating that declining block  
16       rates are a useful tool for stimulating additional use  
17       of the mail for customers that advertise and exercise  
18       discretion over how much mail to send. It sounds to  
19       me like you're talking about elasticity. If we put  
20       the multiplier aside, which we've done, you're talking  
21       about elasticity and mailers with high elasticity tend  
22       to respond to the discounts you're offering and ones  
23       with low elasticity tend not to.

24               So it is obviously a factor in the NSA  
25       process.

1           A     Certainly.

2           Q     And it's not just a matter of whether you're  
3     being criticized or challenged by other mailers to,  
4     through discovery or cross-examination and all. I  
5     mean it's part of your case in chief right here, is it  
6     not?

7           A     Oh, certainly it is. Postal Service

8           Q     Okay.

9                     Let me ask you to help me with something  
10    that's on page four of your testimony and having to do  
11    with a cap. This is what Witness Yorgey deferred to  
12    you. I didn't know who to ask so you've got these  
13    questions. They're not too complicated, but I really  
14    am trying to get at a better understanding of the  
15    termination clause in this agreement. Let's go to  
16    line 15.

17                    You say it nevertheless recommended, this is  
18    talking about Cap One and its progeny.

19                    It nevertheless recommended capping total  
20    discounts. And line 19 contrasts that and says,  
21    unlike Cap One and its progeny, Bookspan NSA concerns  
22    only volume generation. There are no savings  
23    involved, therefore no savings to Cap. do you see  
24    that?

25           A     Yes.

1           Q     But in Witness Yorgey's testimony, and I  
2     don't know if you have it, there's just one sentence  
3     I'll quote to you. I hope I'm quoting you correctly  
4     because, it's page six, line five, and my note says  
5     that it says, "This agreement automatically terminates  
6     and all discounts cease if Bookspan's standard mail  
7     letter solicitation volume exceeds 150 million." Is  
8     that in your understanding an accurate representation  
9     of the termination provision?

10          A     Yes.

11          Q     Could this 150 million upper limit be  
12     considered some type of cap?

13          A     It acts in a way that is similar to the caps  
14     that have been applied in the other NSAs. It's based  
15     on a different calculation, to be certain, and a more  
16     meaningful difference from my perspective is that it  
17     was a cap that was, a type of cap that was negotiated  
18     between the two parties to the agreement.

19          Q     Let me explore that. From a financial  
20     standpoint, can you tell me how this provision which,  
21     you can call it a termination clause or a cap or  
22     whatever, how this protects the Postal Service  
23     financially?

24          A     It's not necessarily designed to protect the  
25     Postal Service financially. When we negotiate with

1 customers we all go in acknowledging that there are  
2 things about the future we won't know and can't know  
3 and can't necessarily take into account when we're  
4 negotiating the terms of an agreement. So with that  
5 in mind we agreed that what we had negotiated was  
6 appropriate given what we knew about Bookspan's  
7 business and how that was likely to change over the  
8 duration of the agreement, what we knew about the  
9 Postal Service and its prices and what might happen to  
10 those in the duration of the agreement. But I think  
11 all parties acknowledged that there are forces that  
12 could change and alter the business environment in a  
13 way that undermines the intent of the Postal Service  
14 and Bookspan when it negotiated this agreement.

15 So we tried to arrive at a volume figure  
16 that would be indicative of an anomalous and  
17 unanticipated change in the business climate that  
18 rendered the intended outcome of the negotiations  
19 let's say invalid.

20 So we agreed that if something changed so  
21 dramatically that Bookspan was able to double in size,  
22 in practical terms, then we missed something and we  
23 need to step back, cancel the agreement, and start  
24 over.

25 Q I guess what I'm unclear about is if an

1     increase in Bookspan's volume is good for the Postal  
2     Service, an increase in its letter volume is good for  
3     the Postal Service up to 150 million pieces, why  
4     doesn't more volume equate to being even better above  
5     the 150 million threshold?

6           A     Well, it would be better all other things  
7     being equal, but what I'm trying to describe is that  
8     our assumption is if the volume reached that level in  
9     a relatively short span of time, three years during  
10    which we don't anticipate any fundamental shift in  
11    Bookspan's business strategy or a sudden reversal in  
12    the sort of declining use of printed media that has  
13    sort of precipitated some of the volume decline we've  
14    observed over time, I'd have to go back to what I said  
15    before.

16           If the volume reached that level we would be  
17    less confident that it was a result of the incentives  
18    and probably more likely to believe that there was  
19    some anomalous unanticipated event that had caused the  
20    shift in the business climate that we hadn't been able  
21    to take into account and we would want an opportunity  
22    to reassess and reevaluate our position before going  
23    further.

24           Q     So you're not really considering it a  
25    financial protection of the Postal Service but rather

1 a warning bell of changed circumstances. Is that a  
2 fair description?

3 A I think that's pretty good, actually.

4 Q You may use that.

5 (Laughter).

6 A Do you want to copyright it?

7 (Laughter).

8 Q Do I take it from your explanation that the  
9 Postal Service was the party that wanted that clause  
10 in the agreement and not Bookspan? If you recall.

11 A I don't recall exactly, but I wouldn't say -  
12 - It wasn't unilateral. Bookspan acknowledged the  
13 need to have something like that in there as well.  
14 Sometimes our negotiations with customers take a long  
15 time. This was an issue that was relatively easy to  
16 resolve. I think both sides acknowledged that it was  
17 a helpful condition to impose on the contract and it  
18 wouldn't restrict the value too adversely on either  
19 side.

20 Q I know, well would you consider -- Let's  
21 assume that the Bookspan NSA is approved by the  
22 Commission and it goes into effect exactly the way you  
23 proposed it. Would you anticipate that functionally  
24 equivalent NSAs in the future would have such a cap or  
25 such a terminating upper limit? To be functionally

1       equivalent.

2           A       I have to acknowledge, I don't know exactly  
3       what the definition of functional equivalents will be  
4       and I can't until we have a recommended decision.

5                    I would say that --

6           Q       I'm asking you to assume that it goes  
7       through exactly the way you asked for it.

8           A       I guess if a customer approached us and  
9       wanted us to waive that condition or cut that out of,  
10      let's assume we have a boilerplate agreement contract,  
11      I would -- and this implies that I'm negotiating. If  
12      I were negotiating I would ask why, and I would say,  
13      depending on their reason, I would say well that's  
14      interesting and you're asking us to make a concession  
15      and I'd like to know what benefits the Postal Service  
16      would be expecting in exchange for that concession.

17          Q       Let me ask you to turn to your response to  
18      T-1-9. This is --

19          A       Okay.

20          Q       The interrogatory asked you about potential  
21      cost saving initiatives of which you had become aware  
22      regardless of whether they had resulted or would  
23      result in an NSA.

24          A       I'm sorry could you give me the citation of  
25      the interrogatory response again?



1 Q ValPak USPS T-1-9.

2 A Okay, I have it.

3 Q Part of what we're asking about there is the  
4 transaction costs, whether it would be, the cost  
5 savings would be big enough to justify the perceived  
6 transaction costs. Do you see that?

7 A Yes.

8 Q The first example you cite in your response  
9 was that the Postal Service considered a proposal  
10 whereby a customer would allow the Postal Service to  
11 select specific entry points for its first class mail.  
12 That raises this question for us. For mailers that  
13 can transmit the contents of their advertising to  
14 geographically remote destinations where it would be  
15 printed locally, wouldn't that, arrangements for those  
16 type of first class mailings potentially have  
17 substantial cost saving opportunities?

18 A I don't know. That's not exactly, and I  
19 admit my answer here is somewhat vague. The proposal  
20 we considered was not that exactly. It was a company  
21 that was considering building a new production  
22 facility and in-sourcing their volume that had  
23 previously been produced by intermediaries. They came  
24 to us wanting to discuss whether or not we could  
25 negotiate prices predicated on their willingness to

1     locate that facility where we wanted them to. For  
2     example, next to one of our facilities that had in  
3     their minds excess processing capacity or better  
4     transportation arrangements or other desirable  
5     location factors that would have allowed us to lower  
6     costs. It wasn't from the type of drop ship  
7     arrangements I think you're suggesting.

8           Q     That's what I had in mind.

9           A     It was different from that.

10          Q     I'm sorry, yeah.

11                 Let me ask you if you have reviewed the  
12     response that the Postal Service made in the Bank One  
13     docket last Friday to Commission Notice of Inquiry No.  
14     1.

15          A     I've reviewed it. I don't have it with me.

16          Q     There is a discussion in here which mentions  
17     Bookspan, characterizes Bookspan, pages two and three.  
18     I can give it to you or I can read the part that's  
19     relevant to you. I want you to just listen to this  
20     for a second.

21                 The question is whether, it takes the words  
22     pure volume discount. Says, "The Postal Service  
23     readily concurs that the issue of pure volume  
24     discounts has not been presented in Bank One," and  
25     then it goes on to say, "as we understand the term

1 pure volume discount, such a case exists where there  
2 are no cost savings and the financial impact of the  
3 NSA is based upon increased contribution from  
4 additional mail volumes generated by volume discounts.  
5 An example of a pure volume discount case would be the  
6 Bookspan NSA which is presently before the Commission  
7 in Docket No. MC2005-3."

8 Does that language ring a bell or --

9 A Yes, it does.

10 Q Would you like me to give it to you so you  
11 can take a look at it?

12 A That's all right.

13 Q I guess my question would be do you agree  
14 with how that response characterizes this docket?

15 A Yes, and no. I believe that there has been  
16 a sort of tacit agreement among the participants in  
17 this case that because the values to the Postal  
18 Service arises solely out of increased volume, and  
19 since there are no other considerations other than the  
20 volume and revenue generated in response to discounts,  
21 that that equates to a pure volume discount.

22 When I hear the term pure volume discount, I  
23 personally apply a slightly different definition. To  
24 my mind, that is when a company offers a lower price  
25 to one customer or to another just because they buy

1 more of something.

2 For example, if I buy a Chevrolet I will get  
3 one price. If Hertz buys a thousand Chevrolets, they  
4 get a very different price. That's a volume discount.

5 We're not doing that here. We're setting  
6 marginally lower prices at a specific threshold. We're  
7 not providing a lower price because of the quantity of  
8 our services that Bookspan purchases.

9 Q So you would not believe this docket to  
10 establish a precedent of the approval of pure volume  
11 discounts?

12 A I hope and expect that this docket will  
13 establish the precedent for NSAs that do not contain  
14 explicit cost savings.

15 I would suspect that if the Postal Service  
16 develops an agreement that was predicated on the kind  
17 of pure volume pricing that I just described, it could  
18 not be based on this docket, it would have to go  
19 through a different proceeding and it would have to be  
20 filed as a separate baseline case. We would have to  
21 litigate the legality and the economic soundness of  
22 that type of pricing. But I don't think we're  
23 establishing that here.

24 Q So the Bookspan NSA is not the camel's nose  
25 under the tent for pure volume discounts?

1           A     Well again, I'm not inclined to rule  
2     anything out. On the other hand i can say  
3     unequivocally that the Postal Service is not  
4     considering currently any agreements of the kind I  
5     just described in my GM/Hertz/Mike Plunkett example.

6                     Does it mean that if a customer came to us  
7     with something that was fantastically valuable we  
8     would close the door on them? It's not our job to  
9     just rule people out. We would consider it and we  
10    would apply the best judgment of our staff, our senior  
11    managers and our board and make a decision at the  
12    time, but we're not actively pursuing anything like  
13    that today.

14           Q     Thank you, Mr. Plunkett. I appreciate it.

15                     MR. OLSON: Thank you, Mr. Chairman.

16                     CHAIRMAN OMAS: Thank you, Mr. Olson.

17                     Mr. Baker?

18                     MR. BAKER: Thank you, Mr. Chairman.

19                     Mr. Plunkett, Bill Baker on behalf of the  
20    Newspaper Association of America.

21                                 CROSS-EXAMINATION

22                     BY MR. BAKER:

23           Q     Starting with page one of your testimony,  
24    you are the Manager of Pricing Strategy at the Postal  
25    Service, hold that title there, and I think you say

1       that you've been personally involved in all the NSA to  
2       date, correct?

3           A       That's correct.

4           Q       So in your current position, are you in a  
5       position to see every mailer who wants to pitch an NSA  
6       concept to the Postal Service that seems serious  
7       enough to warrant discussion?

8           A       Could you say that again?

9           Q       Do you see basically every NSA proposal that  
10      comes to the Postal Service that seems serious enough  
11      to talk about?

12          A       Yes.

13          Q       By virtue of that, so long as you're in this  
14      position with your responsibilities, would you be  
15      involved in the consideration or negotiation of any  
16      NSAs that seek to be functionally equivalent to this  
17      one?

18          A       Assuming I remain in this position. That's  
19      a long and indefinite future.

20          Q       All right. I'm going to ask you then your  
21      understanding of what a functionally equivalent NSA to  
22      this one might look like.

23          A       All right.

24          Q       I'd like you to start by asking you to turn  
25      to the proposed DMCS language, Section 620.12 which is

1 the attachment, in the attachment to the request filed  
2 in this case. I notice the sheet of paper I'm looking  
3 at was revised yesterday, but the language I'm looking  
4 at is the same was unchanged.

5 A I have it.

6 Q Okay. And here, this is the paragraph that  
7 begins "Functionally equivalent NSAs involving  
8 declining block rates for standard mail letter  
9 solicitations for books through analogous club  
10 memberships may be entered into with other customers  
11 demonstrating a similar or greater multiplier effect  
12 as specified by the Postal Service and implemented  
13 under proceedings like this one" basically. Correct?

14 A Yes.

15 Q So this is the proposed EMC language to  
16 which if it were approved and took effect, this is  
17 where a mailer would start to look and see what might  
18 be functionally equivalent.

19 A I believe so, yes.

20 Q I noticed just as a minor aside that the  
21 very first word of that appears to have a  
22 typographical error and I assume the Postal Service  
23 would not mind the Commission changing that.

24 A It says "Funtionally" instead of  
25 "Functionally", yes.

1 Q Okay.

2 A Trying to put the fun back in pricing.

3 Q Right.

4 (Laughter).

5 Q If this NSA were to be approved, would the  
6 Postal Service also adopt some implementing  
7 regulations?

8 A We would have to, certainly.

9 Q Would you have a hand in shaping those?

10 A I would review proposed regulations. I  
11 probably wouldn't be the one writing them.

12 Q I notice that the proposed EMCS language  
13 refers to standard mail letter solicitations. In your  
14 answer to interrogatory eight, you stated that you  
15 would expect any mailer qualifying as functionally  
16 equivalent would be producing standard mail regular  
17 letters for the purpose of acquiring customers and you  
18 made a similar response to ValPak one.

19 I don't see the word "regular" in the DMCS  
20 section. Is it your intent to limit functionally  
21 equivalent NSAs to standard regular solicitations?

22 A As a general rule, I'm not inclined to place  
23 such limits. As a practical matter I don't know that,  
24 I have to confess we've not analyzed all possible  
25 comers to a functional equivalent definition. As a



1 practical matter, I'm not sure there would be any  
2 standard mail ECR customers that would in any way fall  
3 under this category. I can't say that absolutely, but  
4 --

5 Q Okay.

6 As a policy witness here, would the Postal  
7 Service oppose or support inserting the word "regular"  
8 in this language?

9 A I'd have to take that up with the people who  
10 worked in crafting this. I'm at a loss to think of a  
11 reason why we would object strongly. I haven't really  
12 given it much thought.

13 Q Thank you.

14 Moving along in the definition you refer to  
15 "book or analogous club memberships".

16 There have been a lot of interrogatories  
17 kind of getting at this general area so I want to see  
18 if I can kind of cut to it instead of walking through  
19 the questions.

20 Is the idea here that these are  
21 solicitations that are attempting to interest people  
22 into joining something we'll call a club?

23 A Yes.

24 Q And by virtue of the club, once you are a  
25 member of the club you get more mail.

1           A     Uh huh.

2           Q     You get fulfillments, you get advertising  
3     telling you what's coming next, you get fulfillments  
4     if you want it, you may make payments back to the  
5     sender.

6           A     That's correct.

7           Q     You also used the phrase at one point,  
8     "subscription-based products through the mail".

9                     I wanted to ask you, would you regard a  
10    subscription to a monthly or weekly periodical as  
11    being a club?

12          A     Not as I would describe it. I think in one  
13    of my interrogatory responses I pointed out that I  
14    thought a defining characteristic of a club membership  
15    is that it's open-ended in duration and terminates  
16    only when the club member takes action to terminate.  
17    My understanding of how most magazine or periodical  
18    publications work is you pay for a defined period of  
19    service. It's sort of fundamentally different in that  
20    way.

21          Q     So if a mail order came to you proposing a  
22    functionally -- with an NSA proposal but they want it  
23    to be functionally equivalent to this one, but it  
24    involved them sending periodicals rather than club  
25    fulfillments, if you will, you might say that's not

1 functionally equivalent?

2 A I would probably tell them that I didn't  
3 believe it was functionally equivalent and that we  
4 should proceed -- I have to back up a little bit.

5 Even in areas where we have experience it's  
6 not always absolutely clear at the outset of  
7 discussions with a customer whether what they're  
8 suggesting or that we're talking to them about  
9 conforms to a functional equivalents definition.

10 I guess my initial reaction to a customer  
11 like that would be well, I don't believe that it would  
12 qualify as functionally equivalent, but we will defer  
13 making that determination until we've done a little  
14 bit more homework and analysis and try to reach that  
15 conclusion as early as possible. But based on how  
16 you've described it, I don't think that would qualify.

17 Q We've talked about, there were  
18 interrogatories about negative option rules,  
19 continuity shippers, such type of things. I think, is  
20 a correct characterization of your testimony that you  
21 believe it is possible that a mailer -- both mailers  
22 operating under the FTC's negative option rule and  
23 mail orders who are continuity shippers could perhaps  
24 qualify as functionally equivalent?

25 A It appears that way.

1           Q     Is that something y'all had really thought  
2     about a great deal before this discovery happened?

3           A     Well, we thought about it some and we talked  
4     about it and we -- Any time we were discussing an NSA  
5     that could end up as a baseline, we do make some  
6     effort to understand what the universe of potential  
7     functional equivalents looks like, and so we again,  
8     there aren't many book clubs, necessarily, but there  
9     are other companies that use the mail in a similar way  
10    and we've thought about that a little bit.

11          Q     I think in one of his answers Mr. Posch  
12    testified that he thought there was, I think his words  
13    are, "There is essentially only one category of  
14    marketer that produces this massive multiplier effect  
15    and that's clubs operating pursuant to the FTC's  
16    negative option rule."

17                I take it you might disagree with him  
18    insofar as the universe might be a bit broader than  
19    just those companies.

20          A     Well, you might want to ask Mr. Posch that  
21    question as well.

22                I think by definition we would take a more  
23    expansive view of the set of Postal Service customers  
24    than any one of our customers would take. On the  
25    other hand, having spent the last several months

1 fielding a number of phone calls and doing some other  
2 background work, I wouldn't want anyone to conclude  
3 that there's a vast number of companies out there that  
4 are likely to qualify as functionally equivalent to a  
5 Bookspan NSA. There don't appear to be.

6 Q When you get, do you happen to ask when  
7 companies call saying hey, we might look like  
8 Bookspan, do you ask them do they operate pursuant to  
9 the negative option rule?

10 A I don't ask them that, no.

11 Q Does it come out?

12 A Well, we ask them about their business and  
13 what they do and how they use the mail. It doesn't  
14 take long to figure out that they're either a negative  
15 option marketer or they're not.

16 Q Moving back to the DMCS language, after we  
17 do the club memberships there is language about other  
18 customers demonstrating "a similar or greater  
19 multiplier effect as specified by the Postal Service."  
20 I want to focus on that last clause right now.

21 Where will the USPS specify that?

22 A Well, we've written responses that attempt  
23 to establish the boundaries for that. As I responded  
24 earlier, pending a recommended decision we will have  
25 to write implementation rules and we will have to put

1     some amount of specificity in there but I don't  
2     anticipate that we would put in specific numbers that  
3     a customer would have to meet to qualify as  
4     functionally equivalent.

5           Q     I wasn't suggesting that you would, but what  
6     I'm really getting at is the phrase "as specified the  
7     Postal Service really means" is a reference to the  
8     implementing regulation that you have to adopt.

9           A     That's correct.

10          Q     Okay.

11                 You have stated various places that the  
12     multiplier effect is "a defining characteristic of  
13     this NSA", it's a key condition, so I think then we  
14     can agree, can't we, that a functionally equivalent  
15     NSA would have to have something that you would regard  
16     as a multiplier effect. That's --

17          A     Absolutely, yes.

18          Q     And touching on a point Mr. Olson asked  
19     about, given that, would you agree with me that this  
20     NSA is not really a pure volume discount because what  
21     you're counting on here is to some extent some  
22     incremental volume from Bookspan just from  
23     solicitations in standard, but you're looking for a  
24     whole set of mailings to club mailings back and forth  
25     in at least one or more other subclasses, correct?

1           The multiplier effect is a different  
2       category than simply buying a thousand Chevrolets.

3           A     Right. I did attempt to make a distinction  
4       between my interpretation of the term pure volume  
5       discount and the way it's been used in other  
6       proceedings.

7           We're not relying on the quantified value of  
8       the multiplier effect in our financial analysis and my  
9       assumption is if we were to identify, negotiate and  
10      attempt to litigate functionally equivalent NSAs, we  
11      would not rely on the economic benefits of the  
12      multiplier effect to pass what I tend to think of as  
13      the contribution test.

14          Q     I understand that, but they would have to  
15      have a multiplier --

16          A     Yes they would.

17          Q     I assume you're familiar with Ms. Yorgey's  
18      testimony on the financial benefit here, and is it  
19      your understanding that part of her calculation is a  
20      financial benefit to the Postal Service of this NSA  
21      resulted from a conversion of flats to letters?

22          A     I know that was included in the office, yes.

23          Q     Do you recall if that was more or less than  
24      half of the net --

25          A     I don't recall offhand.

1           Q     Is the conversion of flats to letters a key  
2     condition of this NSA?

3           A     No. It's not. I tend to think of it more  
4     as a byproduct. In fact going back to the discussion  
5     I heard this morning, it's an implied effect that  
6     we're inferring from the volume projections and if one  
7     chose to, one could argue that you were observing  
8     independent events and making an unintended inference.

9           Q     So when someone walks into your office  
10    seeking a functionally equivalent NSA to this one but  
11    they don't have a conversion of flats to letters  
12    involved or they're just not a mailer of flats at all,  
13    you would not throw them out of the office in that  
14    regard, you would say that doesn't prevent you from  
15    being functionally equivalent. That alone.

16          A     I wouldn't throw them out of my office for  
17    that reason. No.

18          Q     Okay.

19                 (Laughter)

20          Q     That's all I want to know about that.

21                 Okay, how important to you was the net, in  
22    this case, was the conversion of flats to letters in  
23    your decision to proceed with this filing?

24          A     It's difficult for me to provide a precise  
25    answer when you ask how important. I would say we did



1 not have that very great weight. Again, it's a  
2 phenomenon we have to account for in our analysis in  
3 explaining the financial effects of the agreement, but  
4 it wasn't something we were attempting to accomplish  
5 through the provision of these incentives. That's why  
6 I characterized it as a byproduct before.

7 It wasn't the express intent of the Postal  
8 Service when we negotiated the agreement.

9 Q So if Bookspan had no solicitation flats at  
10 all and we subtracted the value of that conversion out  
11 of the net contribution, do you have any idea what  
12 sort of figure we'd end up with?

13 A I don't, and I also don't know how that  
14 would have affected Bookspan's perceptions of the  
15 agreement.

16 Q Could a functionally equivalent NSA be  
17 business to business or would it necessarily have to  
18 be business to consumer?

19 A I've not considered that to be a relevant  
20 variable. Again, going back to my previous answer, I  
21 don't know of any companies that sort of meet the  
22 assumed requirements that are in that kind of  
23 business. There may be some out there that I'm not  
24 aware of. We wouldn't rule out something just on that  
25 basis alone.

1           Q     You said in response to OCA 7 that  
2 multiplier effect mailings at a level notably less  
3 than Bookspan's would not be viewed as functionally  
4 equivalent, and when pressed on that and some other  
5 interrogatories you expressed reluctance to establish  
6 an absolute floor, and I can understand that.

7                     But surely there are standard mailers that  
8 are simply too small to generate a substantial  
9 multiplier effect in absolute terms even if it doubled  
10 their mail volume in percentage terms. Some people  
11 are just too small.

12           A     Well, as a practical matter I suppose there  
13 are customers of a given size where it's just not  
14 worth their while to pursue an NSA or for us to try to  
15 draw them into this process. But that's purely a  
16 practical issue. It's not a -- I don't think of that  
17 as a policy issue.

18           Q     One thing that's -- Would you agree that one  
19 thing Bookspan has here is it is a mailing model. Its  
20 business model is very mail-centric.

21           A     Yes, that's a very important factor.

22           Q     Heavy use of the mail for solicitations, for  
23 the customer response mailings, for fulfillment, for  
24 payment, and whatever else happens.

25           A     Yes.

1           Q     Mr. Posch told us in an interrogatory that  
2 he believed Bookspan is currently the 21st largest  
3 mailer. Given that and given Bookspan's mail  
4 intensive use, the pool of candidates is necessarily  
5 quite small, isn't it?

6           A     For this type of agreement? I think that's  
7 what I said before. We haven't identified a lot of  
8 even potential candidates let alone viable candidates.

9           Q     How realistic is the possibility that any  
10 other mailer would qualify for functionally  
11 equivalent?

12          A     Well, in part that will depend on the  
13 definition, that will in part depend on the  
14 recommended decision, but I don't anticipate a large  
15 number. Are you saying is it zero? I can't say that.  
16 I don't know. But it's going to be small.

17                If you look at the Capital One agreement,  
18 there have only been three functionally equivalent  
19 agreements to that, and there are many many companies  
20 who issue credit cards.

21          Q     And the three functionally equivalent NSAs  
22 to Cap One all involve mailers who were smaller  
23 mailers than Capital One, did they not?

24          A     They did. Well, I should amend that. It's  
25 possible that the post-merger JP Morgan/Chase is

1 larger in mail terms than Capital One.

2 MR. BAKER: Mr. Chairman, I have no more  
3 questions.

4 CHAIRMAN OMAS: Thank you, Mr. Baker.  
5 Mr. Costich?

6 MR. COSTICH: Thank you, Mr. Chairman.

7 CROSS-EXAMINATION

8 BY MR. COSTICH:

9 Q Good afternoon, Mr. Plunkett.

10 A Good afternoon, Mr. Costich.

11 Q Mr. Baker was discussing functional  
12 equivalency with you, and I wondered if I could  
13 perhaps try to make it more concrete. Would it be  
14 correct that in order for another NSA to be  
15 functionally equivalent to the Bookspan NSA, it would  
16 have to involve discounts for standard-mail letters?

17 A Yes.

18 Q And would these letters have to be sent out  
19 for the purpose of acquiring new customers?

20 A Yes, they would.

21 Q And would these new customers be receiving  
22 recurring offers to purchase merchandise?

23 A Yes.

24 Q And would these recurring offers come at  
25 least six times a year?

1           A     I believe that was the number we presented  
2     as a reasonable basis of definition.

3           Q     And would the mailer have to use at least  
4     one other subclass for purposes of fulfilling orders?

5           A     Or communicating otherwise with their  
6     customers beyond the recurring standard-mail  
7     shipments, yes.

8           Q     Let's turn to the multiplier effect.  Could  
9     you look at your response to NAAT2-1?  That was  
10    redirected to you.

11          A     Yes.

12          Q     Here, you say you would not recommend an NSA  
13    like the Bookspan NSA if there were no multiplier  
14    effect.  Is that correct?

15          A     I did say that, yes.

16          Q     And that's still your testimony.

17          A     Yes.

18          Q     Could you look at NAAT1-2?

19          A     All right.

20          Q     And there, at the end of your answer, you're  
21    saying that if there were a proposed NSA just like the  
22    Bookspan NSA but without a multiplier effect, you  
23    wouldn't recommend it.  Is that correct?

24          A     I would not have recommended that the Postal  
25    Service sign the Bookspan agreement in the absence of

1 the multiplier effect.

2 Q I need to back up. I got ahead of myself.  
3 In your response to NAAT2-1, what you said was the  
4 financial benefits of increased letter-sized, standard  
5 mail alone is sufficient to make the NSA a worthwhile  
6 venture.

7 A That's correct.

8 Q And in NAAT1-2, you say you wouldn't  
9 recommend it without the multiplier effect. Is that  
10 correct?

11 A I would not have recommended this specific  
12 agreement in the absence of a multiplier effect.  
13 That's correct. That doesn't mean I don't consider  
14 the gains in standard mail that this agreement  
15 produces to be worthwhile. I do, but I would not have  
16 agreed to this specific contract in the absence of the  
17 multiplier effect.

18 Q These two responses seem contradictory to  
19 me. If the financial benefits of increased letter-  
20 sized, standard mail alone is sufficient to make NSA  
21 worthwhile, why wouldn't you recommend it even if  
22 there were no multiplier effect?

23 A I understand why this is difficult to  
24 clarify, and it may be that I was too personally  
25 involved in the negotiations. But my reason for

1     responding this way is that throughout when we were  
2     considering the various negotiating positions on  
3     thresholds and incentives that were under discussion,  
4     it was always with an understanding that these  
5     solicitation or acquisition pieces were for a specific  
6     purpose that resulted in a continuing stream of  
7     additional mail services once a customer was acquired.  
8     If that did not exist, we would have approached the  
9     negotiations in a very different way. We would have  
10    argued for perhaps different provisions that aren't in  
11    this agreement now, and we might have tried to  
12    structure the thresholds and incentives in a different  
13    way.

14             It doesn't mean that if it were  
15    theoretically possible to strip off the multiplier  
16    effect, I think you would still have a contribution  
17    positive agreement. In fact, I'm certain of it. But  
18    to me, that's different from saying that I would have  
19    recommended that we negotiate and sign that deal  
20    anyway. To me, they are two different things.

21             Q     Are you suggesting that a Bookspan deal  
22    would have evolved differently if there had not been  
23    this multiplier effect in the back of everyone's mind?

24             A     I think it certainly would have, yes.

25             Q     You mentioned making offers or proposals

1 involving combinations of thresholds and discounts.

2 Is that right?

3 A That's correct.

4 Q And you discussed that in your declaration  
5 in the Bank One case. Is that correct?

6 A I did, yes.

7 Q Can you explain what it is about making  
8 various offers that involve combinations of thresholds  
9 and discounts that allows you to get a better feel for  
10 what the customer's demand might be?

11 A Well, I'll try. As Witness Yorgey talked  
12 about this morning, when we enter discussions, we have  
13 a certain amount of information that allows us to do  
14 some type of projection forward and estimate what's  
15 likely to happen to a specific customer's mail volume  
16 within some boundaries or within some range. But at  
17 that point, that's a relatively crude approximation of  
18 what we think will actually happen, and it doesn't  
19 necessarily inform us as to how they would change  
20 their behavior in response to specific price  
21 incentives.

22 So the variables we attempt to modulate when  
23 constructing different alternatives are generally the  
24 size of the initial incentive and where that threshold  
25 is set, and sometimes we also alter the size of the



1 ranges that cause the incentives to escalate. What we  
2 attempt to do is construct separate proposals that  
3 have roughly the same value to the Postal Service,  
4 based on what we know at the time.

5 This is perhaps an oversimplification, but  
6 generally we find that the customers will gravitate  
7 toward placing a higher value on the absolute size of  
8 the incentive or placing greater value on having a  
9 lower threshold, and so from that, we believe it  
10 reveals something about their preferences that allows  
11 us to make more informed judgments about their  
12 demands. Now, I won't go so far as to say that allows  
13 us to derive a demand function or plot a demand curve,  
14 but it allows us to craft subsequent proposals and do  
15 our analysis about where they would have ended up  
16 without the agreement with more information than we  
17 had going into the discussions.

18 Q Will you present more than one combination  
19 of threshold and discount at the same time per  
20 customer and ask them to choose?

21 A Not exactly. We won't say, "This is a menu.  
22 Choose A, B, C, D," and then we go home. It's more  
23 general and more open ended, and we will generally  
24 present multiple options not defined as well as they  
25 will be when they end up in contract form, but

1 multiple options for, again, where we establish the  
2 initial volume threshold, what size incentives can be  
3 offered, and what size the steps are in the declining  
4 blocks, and then we will try to establish one as the  
5 basis for more detailed discussions so that we can  
6 narrow the focus down onto a specific area, and then  
7 we will either go back and sort of redevelop a new  
8 proposal, or we might suggest to the customer that  
9 they develop a proposal for us.

10 At that point, we're likely to say, "Okay.  
11 You seem to suggest this is the one that works best  
12 for you. We would like you to take it back to your  
13 staff or your other departments. Tell us what you  
14 think this is worth to you, what is likely to happen  
15 to your mailing behavior as a result of these  
16 incentives, and then we'll reconvene at a later date,  
17 and we'll go from there."

18 Then we go back, and as a group, we'll  
19 discuss those meetings and interactions, and we'll try  
20 to draw information from that and then refine our  
21 analysis so that when we receive a counterproposal,  
22 we're in a better position to evaluate it and react to  
23 it.

24 Q You said earlier that you attempt to offer  
25 various proposals that would have roughly the same

1 value to the Postal Service. Is that right?

2 A That's correct.

3 Q In order to do that, don't you have to make  
4 some judgment or estimate about the elasticity of  
5 demand that the customer has?

6 A What we generally do is we'll -- let's  
7 assume there are three different options: A, B, and  
8 C. For A, B, and C, we'll try to estimate a value of  
9 those specific proposals based on a range of outcomes.  
10 I think you're talking about after-rates volumes.  
11 We'll establish a starting point, and then we'll  
12 evaluate it based on varying amounts of dispersion  
13 around that starting point, so if we're off by 5  
14 percent, what happens to the value? If we're off by  
15 10 percent in either direction, what happens to the  
16 value, and so on?

17 So to try to develop a probabilistic  
18 estimate of what the value is going to be under a  
19 plausible set of circumstances. We generally don't --  
20 in fact, I generally advise my staff when we do this  
21 not to dwell on a specific point estimate of after-  
22 rates volume because whatever it is, it's wrong. So,  
23 instead, we believe it's more valuable to have a range  
24 of outcomes and to apply, you know, again, continually  
25 refined judgment about where within that range we

1 think we're likely to end up.

2 Q Is this type of process more important in a  
3 volume discount base like Bookspan than it would be in  
4 a case where there was cost savings as well?

5 A I would say that depends. In a sense, I  
6 know some people derive a certain amount of security  
7 from the presence of cost savings, so I'll use Capital  
8 One as a convenient counterexample.

9 My perspective is that, in reality, the  
10 setting of the thresholds and appropriate incentives  
11 was a much more important issue than the setting of  
12 thresholds and discounts in the Bookspan case by  
13 virtue of Capital One's size because they are mailing  
14 more than 10 times as much, in volume terms, as  
15 Bookspan, and so a small percentage area in Capital  
16 One would have far greater consequences than a  
17 comparable percentage area in Bookspan.

18 So it's not just the presence or absence of  
19 cost savings that determines how important that  
20 analysis is. It's what is the effect if you're wrong,  
21 and how do you attempt to quantify the risk of being  
22 wrong when conducting that analysis?

23 Q Would I be wrong in interpreting what you  
24 just said to mean that you could be more casual with  
25 Bookspan than you were with Capital One?

1           A     No. I would turn it around and say, I hope,  
2     just because we've got a big pool of easy cost  
3     savings, we don't get lazy and not apply a rigorous  
4     analysis to setting the price incentives because we  
5     want that money, and we don't want to just fritter it  
6     away because we've been cavalier in approaching the  
7     volume-reaction side of a two-part agreement.

8           Q     Could you look at your response to OCA  
9     Interrogatory T1-16?

10          A     That's the one I tore out of my book this  
11     morning and handed to counsel. I have it.

12          Q     In your response to Part A, you say  
13     Bookspan's mail is typical of mail in the subclasses  
14     it uses. Correct?

15          A     Yes.

16          Q     In Part C, you confirm that Bookspan's  
17     elasticity of demand, at least, for new membership  
18     standard mail is -2.76. Is that correct?

19          A     What I confirmed is that the equation  
20     presented in Part C was a technique one could employ  
21     for estimating Bookspan's implied elasticity. I  
22     generally, as a rule, stop short of declaring that any  
23     company has an elasticity of demand that can be  
24     derived in the same way that we derive price  
25     elasticity for subclasses because the types of

1 information that are available for estimating subclass  
2 elasticity do not exist for individual customers of  
3 the Postal Service.

4 Q So the calculation, or, at least, the  
5 formula used, is correct.

6 A You could take that approach, certainly, and  
7 that will give you an estimate of Bookspan's implied  
8 elasticity.

9 Q In Part D, we asked you to confirm that the  
10 elasticity for standard regular is -0.267. Correct?

11 A Yes.

12 Q And that is the elasticity for the subclass.

13 A That was the estimated elasticity at the  
14 time R-2005 was filed, I believe. That's correct. It  
15 might have changed since then.

16 Q So was that an estimate for the test year in  
17 our R-2005?

18 A I believe that's correct.

19 Q My problem is with your use of the word  
20 "typical." Assuming Bookspan has an elasticity of  
21 demand on the order of 10 times greater than the  
22 subclass as a whole, how can its mail be typical of  
23 that subclass?

24 A The reason I would say the mail was typical  
25 of the subclass is -- regular is generally used to

1     advertise products and services and to acquire  
2     customers, and that's the use that Bookspan makes of  
3     its mail.

4             It may be more helpful if I contrast this  
5     with the case of Capital One where we had the  
6     opposite. Capital was not typical of the subclass in  
7     which they were mailing because they were using first  
8     class largely as an advertising medium, whereas the  
9     majority of first-class mail is not used for  
10    advertising. So in that sense, they were outliers  
11    among the subclass in which their mail was sent.

12            I think that's independent of a quantifiable  
13    estimate of their price elasticity, and I would go  
14    back to my answer on Part D of this interrogatory. If  
15    a subclass has an average price elasticity of -2.67,  
16    there may be many companies who mail within that  
17    subclass who have price elasticities well above and  
18    well below that average because that average is a  
19    composite of thousands of companies in dozens of  
20    different industries.

21           Q     You can't go very far below -0.267, can you?

22           A     To negative infinity, theoretically, but  
23    that --

24           Q     In terms of elasticity.

25           A     Well, again, that's the reason for my

1 earlier answer. If you're looking solely at comparing  
2 a percentage change in volume with a percentage change  
3 in price and looking solely at postage, I don't think  
4 that tells the entire story, and that's why we're  
5 reluctant to do that, and that's why we're reluctant  
6 to try to precisely quantify an individual customer's  
7 price elasticity using the same techniques.

8 Q In terms of price elasticity, would you call  
9 Bookspan an outlier within standard regular?

10 A I don't know, to be certain, because I have  
11 not done enough analysis of other companies within the  
12 subclass. But there are factors other than the  
13 relatively small, in absolute terms, price incentives  
14 that this agreement will give them that could affect  
15 their volume behavior during the term of the agreement  
16 that this kind of analysis doesn't necessarily pick  
17 up.

18 Q If there are these other factors, is the  
19 Postal Service able to identify them during  
20 negotiations?

21 A In general terms, we can sometimes; not in  
22 precise terms. I'll give you a hypothetical example.

23 Bookspan, of course, is in the business  
24 ultimately of selling books to customers. We  
25 anticipate that these price incentives will allow them



1 to send more mail to their universe of potential  
2 customers probably using the same mailing lists that  
3 they already acquire.

4 Well, what that means is that, at the  
5 margin, they don't have to incur the cost of  
6 purchasing a list because that cost has been sunk. If  
7 they can produce identical mail pieces in larger  
8 quantities, they may be able to get longer print runs  
9 and lower their production costs. If they are able to  
10 release books in larger quantities because the new  
11 customers are buying the same books as the old  
12 customers, then the production costs on those books  
13 may also decline at the margin.

14 So it's not just the incentives on the  
15 standard mail that allow Bookspan to lower the overall  
16 cost of serving their customers, and it's why, looking  
17 solely at postage expense, expecting an individual  
18 company to exhibit demand characteristics that are  
19 identical to a subclass, I think, partially misses the  
20 point.

21 Q When you say "at the margin," would you  
22 expect that Bookspan would be mailing deeper into its  
23 lists to more marginal prospects?

24 A I think that's exactly what we expect them  
25 to do. What we're attempting to do is lower the

1 marginal cost of acquiring a new customer, and the way  
2 these incentives work is that if you ignore all of  
3 those other things I just talked about, then we're  
4 reducing the cost of customer acquisition by the size  
5 of the incentive times the inverse of the response  
6 rate of the mailer.

7           So, for example, if they have to mail 100  
8 pieces to get one customer, then the cost doesn't  
9 decline by two cents; it declines by two dollars  
10 because they get a two-cent incentive on every one of  
11 those 100 pieces that they have to send to acquire a  
12 specific customer. And that's why I think you can see  
13 sometimes a relatively large volume response depending  
14 on the specific business that a customer is in.

15       Q     When you say, assume a response rate of 1  
16 percent, is that average or marginal?

17       A     From my back-of-the-envelope analysis, that  
18 would be at the margin.

19       Q     So at the margin, that would be less than  
20 the average response rate.

21       A     I don't know to what extent the response  
22 rate changes in precise terms as you move deeper into  
23 a list, and, of course, there are other variables that  
24 are affected when you go deeper into a mailing list  
25 beyond just the response rate. It may be that at the

1     margin, the response rate doesn't change, that other  
2     variables change that make that next set of target  
3     customers less appealing besides a difference in  
4     response rate.

5           Q     Ultimately, it's that marginal response rate  
6     that determines the multiplier effect, is it not?

7           A     That's certainly a key variable.  There  
8     might be others that are almost as important, but  
9     that's crucial in evaluating the multiplier effect.

10          Q     Can you describe or list any of these other  
11     variables?

12          A     Well, certainly, how many books these  
13     customers buy, how long the average duration of their  
14     membership is, whether or not they pay their invoices  
15     on time or require dunning notices.  There are several  
16     variables that would affect that multiplier value at  
17     the margin.

18          Q     Was the Postal Service made aware of  
19     Bookspan's response rates for its customer-acquisition  
20     mailings?

21          A     I don't know their response rates, no.

22          Q     Wouldn't you need to know that in order to  
23     estimate any sort of financial value for the  
24     multiplier effect?

25          A     No, I don't think so.  I think we could

1 estimate that by making what I would characterize as  
2 reasonable assumptions. If you start with the  
3 assumption that the response rate is somewhere between  
4 zero and 5 percent and look at a range of possible  
5 response rates within that, I think you can make some  
6 pretty sound judgments about how big a multiplier  
7 effect is likely to be.

8 Q Did the Postal Service do that with respect  
9 to Bookspan?

10 A Well, Witness Yorgey yesterday filed a small  
11 worksheet that shows how you could quantify a  
12 multiplier effect, and, of course, we went through  
13 multiple iterations of that and said, "Okay. If it's  
14 this, what is the value, and if it's this, what is the  
15 value?" Again, we did not rely on that for purposes  
16 of satisfying the contribution test. So it's helpful  
17 information to us, but it wasn't the factual basis for  
18 the decision to pursue the agreement.

19 Q If you can get a fairly accurate sense of  
20 what the financial value of the multiplier effect  
21 would be, why wouldn't you rely on it?

22 A Well, now we're getting into the territory  
23 where it's my personal perspective. My belief is that  
24 the incentives we provide within a subclass have to be  
25 profitable for their own sake and not rely on

1 contributions from other subclasses to make up the  
2 difference.

3 Q Well, there is no difference to make up  
4 here; it's just extra money, isn't it?

5 A That's because I believe we satisfy the  
6 contribution test just from the standard mail effect.  
7 If we had calculated that this agreement produced a  
8 loss within standard-mail, regular letters, but that  
9 loss was made up for by a contribution from additional  
10 first-class mail dunning notices or -- matter  
11 shipments or repeated customer standard mail catalogs,  
12 I'll go back to what I said before: I certainly would  
13 not have recommended that the Postal Service sign that  
14 hypothetical agreement.

15 Q But in this case, in Bookspan, you believe  
16 that you're getting additional contribution from the  
17 volume that responds to the discount, --

18 A Yes.

19 Q -- and you believe you've got a fairly good  
20 estimate of the financial value of the multiplier  
21 effect. Is that correct?

22 A Yes.

23 Q So I'm still left scratching my head as to  
24 why you don't want to rely on the multiplier effect.

25 A I hope I didn't say that one couldn't do

1     that. I tried to explain the reasons why, in my  
2     position as the person partially responsible for  
3     negotiating these agreements, I tried to explain why  
4     our negotiating position is what it is and why, in  
5     attempting to craft agreements of this type, we  
6     require that we pass the contribution test within the  
7     subclass around which we're negotiating.

8             I'll admit, somebody other than me who had  
9     this responsibility might conclude very differently  
10    and might be perfectly willing to propose agreements  
11    like that. I've just tried to describe why we've  
12    taken that position.

13            MR. COSTICH: Thank you, Mr. Plunkett. I  
14    have no further questions, Mr. Chairman.

15            CHAIRMAN OMAS: Thank you, Mr. Costich.

16            Is there any follow-up cross-examination of  
17    Witness Plunkett?

18            (No response.)

19            CHAIRMAN OMAS: Are there any questions from  
20    the bench?

21            (No response.)

22            CHAIRMAN OMAS: Mr. Reiter, would you like  
23    some time with your witness?

24            MR. REITER: Unless the witness thinks there  
25    is a reason to, I haven't spotted any.

1 THE WITNESS: I wasn't really paying  
2 attention.

3 (Laughter.)

4 MR. REITER: I think we could call it a day,  
5 Mr. Chairman.

6 CHAIRMAN OMAS: That's wonderful.

7 Mr. Plunkett, that completes your testimony  
8 here today. We appreciate your appearance and your  
9 contribution to our record. Thank you, and you are  
10 now excused.

11 THE WITNESS: Thank you, Mr. Chairman.

12 (The witness was excused.)

13 CHAIRMAN OMAS: The final item to take care  
14 of today is the receipt of institutional responses to  
15 discoveries provided by the Postal Service.

16 Ms. Dreifuss, have you prepared a packet of  
17 designated institutional responses for incorporation  
18 into today's transcripts?

19 MS. DREIFUSS: Mr. Chairman, I believe we  
20 took care of that this morning. I don't know if you  
21 recall, but counsel for the Postal Service handed two  
22 copies to the reporter, and we did that this morning.

23 CHAIRMAN OMAS: All right. Fine. Well,  
24 that concludes the hearings today. We will reconvene  
25 tomorrow morning at 9:30 a.m. to receive testimony

1 from Bookspan witnesses. Thank you, and this hearing  
2 is adjourned.

3 (Whereupon, at 3:26 p.m., the hearing was  
4 adjourned, to reconvene at 9:30 a.m. on Thursday,  
5 October 20, 2005.)

6 //

7 //

8 //

9 //

10 //

11 //

12 //

13 //

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

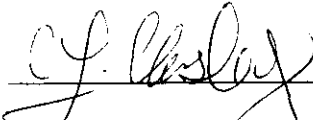


REPORTER'S CERTIFICATE

DOCKET NO.: MC2005-3  
CASE TITLE: Rate and Service Changes  
HEARING DATE: October 19, 2005  
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission.

Date: October 19, 2005

  
\_\_\_\_\_  
Christina Chesley  
Official Reporter  
Heritage Reporting Corporation  
Suite 600  
1220 L Street, N.W.  
Washington, D.C. 20005-4018

Heritage Reporting Corporation  
(202) 628-4888